

**UNIVERSITY OF VAASA  
FACULTY OF BUSINESS STUDIES  
DEPARTMENT OF INTERNATIONAL MARKETING**

Hillevi Ylitorvi

**FOREIGN DIRECT INVESTMENTS IN INDIA  
FOCUS ON FINNISH AND SWEDISH  
JOINT VENTURES**

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## LIST OF ABBREVIATIONS

<b>BRICS</b>	Brazil, Russia, India, China
<b>CSA</b>	Country specific advantages
<b>FDI</b>	Foreign direct investments
<b>FSA</b>	Firm specific advantages
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>GDP</b>	Gross Domestic Product
<b>IBEF</b>	Brand Equity Foundation
<b>IA</b>	International advantages
<b>IJV</b>	International joint venture
<b>IMF</b>	International Monetary fund
<b>ISA</b>	Invest in Sweden Agency
<b>M&amp;As</b>	Cross-border mergers and acquisitions
<b>MNE</b>	Multinational corporation
<b>OLI</b>	Ownership-Location-Internationalization
<b>R&amp;D</b>	Research & Development
<b>RBI</b>	Reserve Bank of India
<b>SIA</b>	Sweden Investment Agency
<b>SME</b>	Small and medium sized companies
<b>TNC</b>	Transnational corporation
<b>UN</b>	United Nations
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>WOS</b>	Wholly owned subsidiary
<b>WTO</b>	World Trade Organization



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**UNIVERSITY OF VAASA****Faculty of Business Studies****Author:**

Hillevi Ylitorvi

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**Supervisor:**

Jorma Larimo

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**ABSTRACT**

As the world becomes more globalized, there are more companies also in the Nordic countries aiming to foreign markets, to gain growth by internationalisation. One possibility for companies to enter foreign markets is foreign direct investment (FDI). Growth in most countries has declined in recent years and also the emerging markets are witnessing uncertainties in the market situation, however India is still an important target for FDIs. The western companies are popular in India, which is a benefit for smaller, unknown companies from the Nordic countries aiming to the Indian market. However, companies have to be careful in entering the Indian market due to obstacles like bureaucracy and corruption.

The purpose of this thesis was to analyze the economic, political and cultural environment of India and to clarify the strategic motives for international joint venture formation (IJV) and the influence of partner selection, management control, trust and other factors into IJV performance. Also by performing an empirical study the same aspects were examined in a sample of two Finnish and two Swedish companies operating in India and as well to clarify whether there are similarities or differences in their behaviour.

The empirical part of this thesis was conducted by using qualitative multiple-case study as a research strategy in order to produce deep descriptions of factors affecting IJVs with selected case companies. The introduced companies have IJV in India, or either have earlier had IJV, but have later set up wholly owned subsidiaries. The study demonstrated that getting into IJV with an Indian partner is an effective alternative for an unknown Nordic company to enter the Indian market. As stated by the theories, all case companies felt that trust between partners had increased during the partnership; however it had not diminished the need of control and monitoring. The cultural differences were stated to play an important role in management of IJV. As what comes to performance, the trustable local persons to work for you are a key to be successful.

**KEYWORDS:** International joint venture, motives, performance, India, Finland, Sweden



# 1. INTRODUCTION

## 1.1. Background of the study

As world becomes more globalized, there are more and more companies also in the Nordic countries aiming to foreign markets. The most strategies companies use when they internationalize are exporting, licensing, strategic alliances and foreign direct investment (FDI). The relationship between FDI and economic growth has been a topical issue for many decades and therefore a large number of countries are engaged in creating many kinds of incentives, e.g. export processing zones and tax incentives to attract FDI, because it is assumed to affect positively the local economic development (Giroud 2007).

According to The United Nations Conference on Trade and Development (UNCTAD) definition, FDI refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. In cases of FDI, the purpose of the investor is to gain an effective voice in the management of the enterprise. The foreign entity or group of associated entities that makes the investment is called the direct investor. The unincorporated or incorporated enterprise, a branch or subsidiary, respectively, in which direct investment is made, is referred to as a direct investment enterprise. Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise. UNCTAD suggests a threshold of 10 per cent of equity ownership to qualify an investor as a foreign direct investor.

Due to economic and financial crises in the world, FDI flows have undergone dramatic changes since the end of 2008, when the current economic and financial crisis first began. The ongoing crises have raised major concerns about the propensity and capability of companies to continue investing and expanding abroad. The perceived risk of a possible worsening of the global economic downturn and reduced access to financial resources are the reasons for a fall in FDI. When the FDI fell, in turn also raised concerns among host countries, especially those in the developing world relying on international investments how to finance their domestic growth and the creation of jobs. (UNCTAD 2010.) However according to The World Investment Report (UNCTAD 2011) is forecasting that, barring any economic shocks, FDI flows will recover to pre-crisis level over the next two years.

The primary and important form of foreign investment has been international joint ventures (IJVs) which help companies to cope with globalization by allowing access to foreign partner resources as source of leverage for their own resources. (Makino & Beamish, 1999). Another common example of FDI is to set up a new overseas operation as a totally-owned enterprise. In these theses the aim is to discuss FDI through joint ventures as IJVs often play an important role in the firm's strategic plans (Kogut, 1988). IJVs help companies learn new technologies, enter foreign markets, and share talent or risks with other companies. However IJVs can also be problematic and unstable to the point of not delivering on their potential benefits (e.g., Killing, 1983; Kogut, 1988).

India is considered to be one of the most attractive emerging markets and target for FDI. From an international perspective, India is climbing up the ranks of favoured FDI destinations in the developing regions, and this role has become more evident since the middle of 1980s. According to South Asia Monitor (2011), India is one of the largest and among the most dynamic emerging economies, which enables foreign companies to take advantage of India's skills base, low costs and enormous market potential. Although growth in most advanced economies has declined in the second quarter of 2011 and also the emerging markets are witnessing a combination of moderation in growth and rising inflation bringing uncertainties UNCTAD has ranked India at second place in global FDI in 2010 (IBEF 2011).

India's economic progress is not only a key factor of stability in the global economy, but also a source of immense economic opportunity for the world (South Asia Monitor 2011). The western companies are popular in India, which is a benefit as well for the unknown companies from the Nordic countries aiming to Indian market. The reputation of Finnish companies with high technology has spread in India although investments by Finnish companies in India have been rather insignificant until today. According to Helsinki School of Economics Cemat -report by Kapiainen - Heiskanen (2009), it is easier for the Finnish companies to operate in India rather than in China, because of India's huge market potential, low-cost supply bases, sources of unique resources and English speaking population.

Sweden has a long history of trade and investments in India, in particular within manufacturing and telecom industry. Ericsson supplied its first manual switchboard to India in 1903, and in 1920 Swedish Match set up its first factory in India. A number of Swedish multinational companies are investing and have manufacturing plants in India.

In recent years, several Swedish companies have also established significant research and development (R&D) operations in India (Trade between Sweden and India 2010.)

## 1.2. Research problem, objectives and limitations of the study

The aim of this study is to provide better understanding of joint ventures strategies among Finnish and Swedish companies in India and also find similarities and differences in strategies among the two countries. The main goal of this study is to discuss the core dimensions of IJV; strategic motives for investments, partner selection criteria, management control and performance. In order to achieve the main objectives of the theses, the following sub-objectives are presented.

1. To analyze the economic, political and cultural environment of India and FDI policy
2. To clarify the strategic motives for FDI and for the form of IJV and the criteria for partner selection, the relationship between management control, ownership and trust influencing IJV performance
3. By performing an empirical study to analyse strategic motives for the formation of IJV, the criteria for partner selection and to analyse whether management control, ownership and trust have effects on the performance of Finnish and Swedish IJVs with their Indian partners. At the same time to clarify whether there are similarities or differences between Finnish and Swedish companies related to decisions on FDI strategies and performance.

The reason to compare Finnish and Swedish companies in this thesis is that both countries have a small domestic market, therefore internationalization and finding new target markets is very important for these economies. The success of joint ventures in emerging economies, like India, seems to depend very much on the selection of local partner. This study illuminates partner selection criteria, strategic motives for IJV formation, the management control and IJV performance with the focus on Finnish and Swedish companies in India. The empirical part of this thesis will be conducted by using qualitative multiple-case study as a research strategy in order to produce deep descriptions of motives for IJV formation with selected two companies from the two countries.

The empirical part of this thesis will be conducted by using qualitative multiple-case study as a research strategy in order to produce deep descriptions of strategic motives and the partner selection criteria the case companies have used. The information is collected practically by interviewing a selected group of company executives in Finnish/Indian and Swedish/Indian IJVs, which are selected on the basis of their involvement in strategic investment decisions. Also the relationship between trust and control into IJV -performance is identified. The selected companies represent quite similar sectors and industries and they are all engaged in manufacturing. All selected companies have joint venture form at the moment or have had a joint venture; some of the companies are having greenfield investment, some acquisition.

The theoretical part of this these was gathered from original books, using the library of the University of Vaasa and literature from the academic Tritonia –library from electronic databases like EBSCOhost. The first phase in searching process was done by database search using EBSCOhost and Science Direct, the articles were searched using key words like IJV and India and other words in more general. The other phase included the words management, control, performance and trust in joint ventures. The articles were found in most cases from Journal of Asian Economics and Journal of International Business Studies and Journal of International Management. Also information on the Finnish and Swedish companies doing business in India was gathered from the internet sites of Exportrådet and Sweden India Business Council in Sweden and Finpro and Finnfund in Finland.

The portfolio or contractual investments (made through stocks and bonds in a foreign company without long term relationship) are not included in the study. Foreign portfolio investments are investments in foreign securities stocks, bonds for the sake of dividends/interest without control for managerial purposes. Sometimes portfolio investment is used as a scanning device to evaluate whether the target firm would be suitable for acquisition. (Luostarinen & Welch 1990). Foreign selling units are excluded from the study. When discussed about the motives, partner selection, trust, control, and performance of IJVs, the present study exclude the role of local partner, only the role of parent company in home country is included.

### 1.3. Literature review

According to Nayak (2008) most of the available literature in FDI can be classified into following major areas of study: determinants and motivations of FDI for investing firms, host country policies to attract FDI and impact of FDI on the host economy.

It is of great interest to identify and gain deeper knowledge of the reasons behind the decisions of Finnish and Swedish companies to establish a strategic alliance with the Indian partner. The investment flows or joint ventures from Nordic countries to India have scarcely been analysed. Most of the previous research has focused on studying Nordic companies investing in other emerging economies, especially China. Today the Ministry of Employment and Economy in Finland also wants to encourage Finnish companies in internationalisation to the Indian market. As India is becoming more attractive as a target country for Nordic companies, there certainly is going to be more studies on this subject as well.

#### **Business environment of India**

*Acharya* (1998). The book analyses the factors that influence the reforms in macroeconomic and trade policies infrastructure, and social sector policies since 1991 and the book examines to what extent India has been successful in proving growth in India. This study is used in the section of economic environment in this study.

*Enderwick* (2007). The book presents a well balanced overview of the confrontation between the opportunities and the risks which are typical of the emerging markets of China and India. The book aims to provide an integrated perspective, recognizing both the attraction of and the impact that international business has on India. This book is used throughout the thesis.

#### **FDI -strategies**

*Dunning* (1993). The book presents a detailed description and appraisal of the ways in which MNEs have shaped the emergence of the global economy of which they are part. Dunning's eclectic paradigm stipulates that companies will choose the most appropriate entry mode into international markets by considering their ownership advantages, the location advantage of host country, and the international advantages of integrating transactions within the firm.



*Larimo* (1999) analyzed the FDI strategies of Nordic firms (Danish, Finnish, Norwegian, and Swedish firms) based on a large sample of 682 companies, the location, ownership, and form of investment in Central and Eastern Europe.

*Larimo* (2003) studied the forms of entry of Nordic firms in world markets, analysing how different characteristics related to the investing firm, the target industry and the host are related to the decision regarding entry form. The goal of the study was to analyze the forms of entry decision of Nordic firms in world market.

*Nayak* (2008). The book gives a deep analysis of the key determinants of successful direct investment strategy by foreign firms in India. It provides important issues to multinational companies in India on how to strategically invest in India for the benefit of both company and the country involved. The book identifies firm's internal strategy to be the key to success of foreign firms in India. This book is used throughout the thesis.

*Tomlinson* (1970) sets up a framework for a model of the decisions and dimensions involved in establishing and operating joint ventures in international business. The study done by Tomlinson is based on evidence collected from 50 British firms with investments in India and Pakistan.

### **Partner criteria**

*Geringer* (1991) collected information from 101 executives representing 90 joint ventures between 1979 and 1985. The study tests several hypotheses regarding the reliability and comparability of a range of objective and subjective measures of IJV performance, as well as evaluating the relative utility of different data collection approaches.

*Tatoglu* (2000) utilized Geringer's typology in investigating the aspects of selection criteria in Western joint ventures formed by local partner organizations in Turkey. A study by *Nielsen* (2002) identified the importance of a set of selection criteria when selecting a partner for an international strategic alliance. These two studies are used in this thesis discussing partner selection chapter.

## **Trust**

A study by *Demirbag, Weir, and Mirza* (2002) looked at the role of trust in a sample of manufacturing joint ventures within Turkish IJV partners. According to *Das and Teng* (1998); *Koza and Lewin* (1998), trust is viewed as an important component to IJV success since it induces desirable behaviors such as knowledge sharing, reduces resistance to knowledge transfer, and increases co-operation between individuals and firms.

## **Level of ownership**

*Dang* (1977) examined 16 WOSs and 11 IJVs of U.S.-based MNCs in the Philippines and Taiwan and the relationship between ownership and performance of subsidiaries. *Otterbeck* (1981) studied a group of six Swedish MNEs and collected data from 13 WOSs and 11 IJVs and their efficiency of two international market entries from a comparative perspective, the IJVs and the WOS. The effectiveness were evaluated in terms of exit rate, longevity, stability of owner status, integration with the partner system and export sales.

## **Management control**

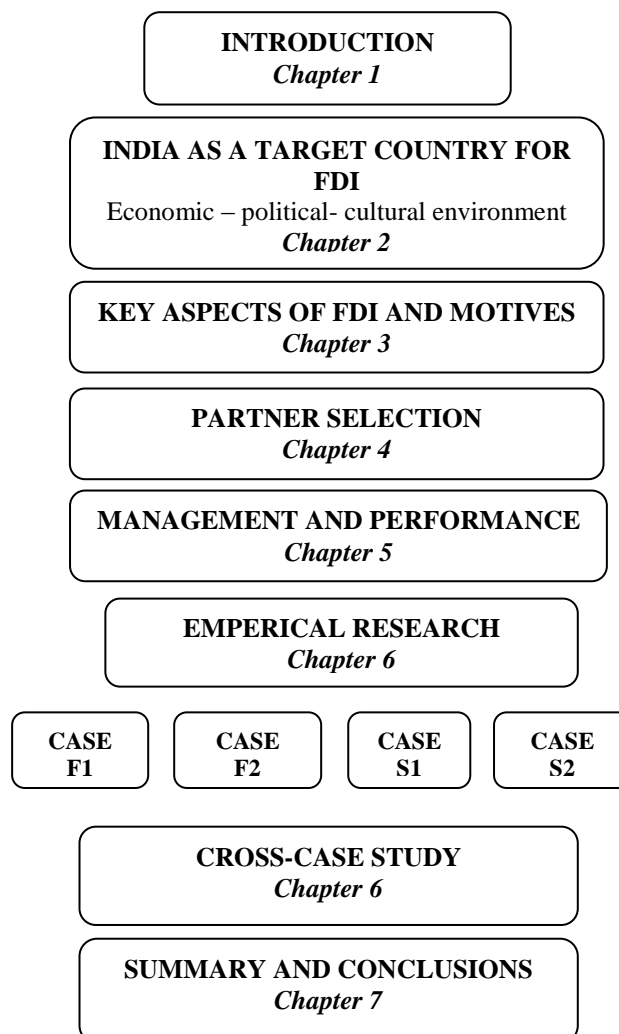
*Zhu, Bhat, and Nel* (2005) studied the Indian management style. *Gislén and Venugopal* (2008) discussed of the challenges that have to be overcome for successful outsourcing. Organisations must develop extensive cross-cultural understanding, communication skills and management competencies also found that western managers often focus only on managing outcome rather than behaviour, whereas Indian managers focus more on behavioural control.

## **Performance**

*Killing* (1983) in his in-depth study of 35 IJVs identified how the IJVs are as an organisational form to manage and how IJV performance affects IJV reconfiguration. The examination of *Glaister and Buckley* (1999) of measures of performance for a sample of UK international alliances presented control – performance relationship, according to the study the fit between the partner companies and the quality of their relationship during the operation of the IJV are such factors.

#### 1.4. Outline of the theses

The introduction part in chapter 1 will give to the reader the background information on FDI's meaning for today's world economy and market situation, which leads to the problem discussion, research questions and purpose of this thesis. The chapter reviews the literature relating to the theories of FDI together with literature of partner criteria, trust, level of ownership, management and performance. The chosen methodological approaches are presented in the same chapter. Chapter 2 offers overview of the economic, political and cultural environment in India together with the history of FDI's in India. In Chapter 3 the main motives for FDI are explained and Chapter 4 introduces partner selection and trust in FDI's. Chapter 5 presents the level of ownership, management control and performance of IJV and Chapter 6 describes the empirical data. The final Chapter 7 summarizes the findings and conclusions.



**Figure 1.** The outline of the thesis.

## 2. INDIA AS A TARGET COUNTRY FOR FDI

This chapter presents the economic, political and cultural environment of India. A critical understanding of the history and characteristics of FDI in India also provides a sound background to understanding the context of globalisation in India.

### 2.1. Economic environment

India is the biggest democracy in the world, with a population of some 1.027 million people, which makes 16,7 % of the world's total population. The country is administratively divided into 28 states, 6 union territories and a National Capital territory. The size of middle class in India is about 300 millions, with quite much of purchasing power and in addition to that a very wealthy over class of 15 million people. India has huge natural resources as well as excellent cultural inheritance. Country's GDP has grown each year with nearly 8 %, and the growth of industry has been growing approximately 9 %. Statistics on Indian economic development is presented in table 1.

**Table 1.** Key figures on economic development between 2006-2010 in India. (EIU 06/2010)

	2006	2007	2008	2009	2010	2011 estimation
GDP, % change	9,4	9,6	5,1	6,8	7,8	8,0
GDP by function (mrd. USD)	958,1	1187,3	1260,0	1281,0	1554,9	1782,9
GDP per person (mrd. USD)	836,0	1050,0	1100,0	1100,0	1310,0	1480,0
Industrial growth (%- change)	10,5	9,9	4,4	6,6	13,7	9,4
Consumer prices (%-change), average	6,2	6,4	8,3	10,9	12,0	5,8
Exchange rate USD INR/1	45,3	41,3	43,5	48,4	46,5	46
Unemployment rate %	7,8	7,2	6,8	10,7	10,8	
Corruption index	3,3	3,5	3,4	3,4	3,3	

As well the global opinion about India and its power and potential in terms of growth and market size has changed over the last few years. Today India is among a list of 12 countries with GDP in excess of 1 trillion dollars and is growing faster in the world. This can be considered important not just for India but also for the rest of the

developing countries. With the 8,5 – 10 % annual economic growth in India during the last few years, the time between 2008-2010 shows that for India specific economic models can be persuaded in a globalising world. India has done a great deal in building policy environment to encourage both domestic and as well facilitate outward investment by the Indian industry. (OECD 2009.)

The Bank of India informs that the Indian Government and the Reserve Bank of India have done proactive measures to contain the fallout of global crises on Indian economy. Among those both fiscal and monetary measures aiming to ensure adequate liquidity in the system are e.g. lowering interest rates, specific steps to help industry sectors, revival of capital flows and rationalization of duties. (Bank of India 2009.) It can also be said that the Indian market has maintained steady growth even during the global economic slowdown. (Business India Intelligence 2009.) Earlier on India was one of the lowest recipients of FDI among developing countries until the 1970, and India is still far too behind China in attracting FDI, but it has done remarkably well in recent years when we compare it with its own past performance.

Unfortunately the gap between the rich and the poor in India has widened over the past decades, although the absolute level of poverty has improved a lot. India's stabilisation and initiation of reform has been a relative success, it has been liberalising the economy, raising the infrastructural needs of the country and investing in the development of human resources. It needs to be acknowledged that Indian reforms have involved a relatively high fiscal cost. The lowering of import tariffs and excise with the liberalization of the financial sector impinged on revenues and increased the cost of government borrowing, while it has been politically difficult to reduce subsidies. While India's liberalisation of the investment regime is virtually complete, FDI remains slow to pick up because of regulations and administrative constraints that are neither transparent nor uniform across the states. The failure to cushion the negative effects on structural reforms on the poor has had an adverse response to reforms. India's achievements over the years have been commendable but the momentum of reform needs to be maintained to sustain growth and spur private investments. The continuation of reforms stands to benefit the poor by eliminating the bias against investments and employment. (Acharya 1998:3.)

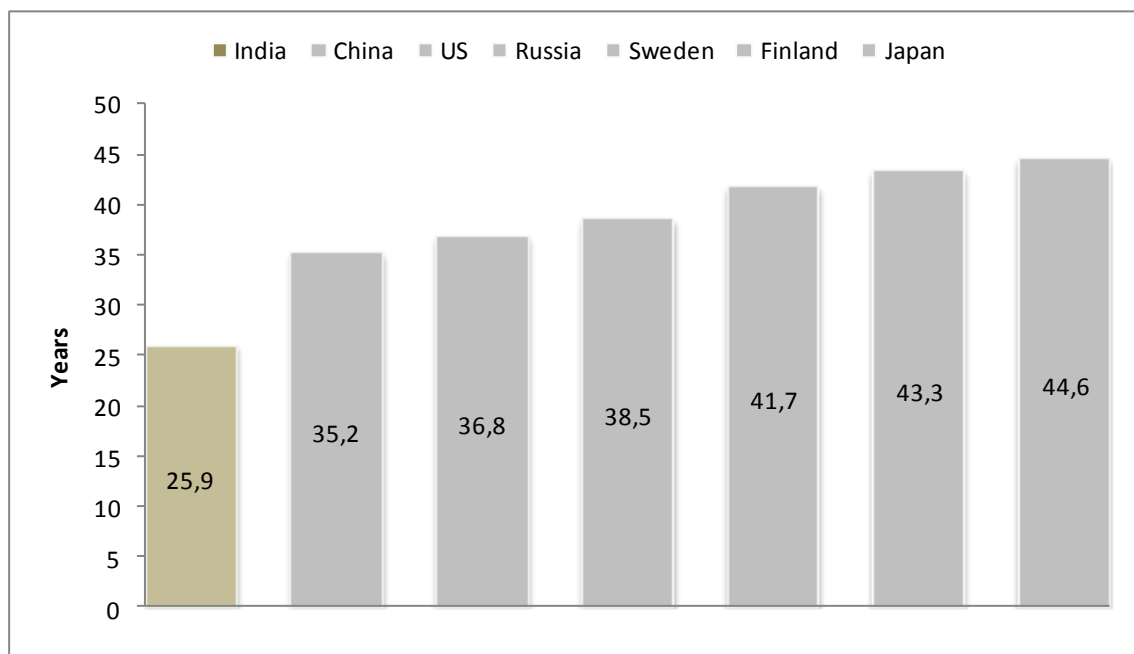
The old Indian economy included agriculture, manufacturing, mining, and infrastructure and the new economy is dominated by services, such as information technology and communication, hotels and restaurants, and finance. The new economy has grown much

faster than the larger old economy. The new service industries are less encumbered by India's bureaucracy with its numerous regulations, recurrent inspections, and excessive compliance costs. The diversity of performing by region and sector in India is likely to be reflected in a similar diversity of opportunity for international businesses in India, and it can be stated that the geographic and demographic scale of India encourages niche or geographically constrained business strategies as well as the prospect of continued high growth in the new service sector makes these industries attractive to international investors. (Enderwick 2007: 77.)

The services sector has grown much faster than manufacturing. India's leading exports are found in sectors of high labour and low capital intensity: commercial services, jewellery, engineering and agricultural goods and textiles. India's strength in manufacturing is in small-scale batch production which is apparent in pharmaceutical productions, where India is an important contract manufacturer for the major multinationals. India suits well in production of pharmaceutical production, which has high knowledge content and a low weight-to-value ratio, which means that products are not overly dependent on India's ailing infrastructure. Due to differences in resource endowments and quality of infrastructure, India has the potential to be more competitive than China in resource-based sectors such as aluminium, steel, paper, and agricultural products, but achieving the necessary scale to be cost efficient is very difficult with India's current infrastructures. Infrastructure weaknesses limit firm scale. (Enderwick 2007:133 -137.)

There are several reasons why India seeks development in its manufacturing industry, one reason is the need to create employment opportunities for the vast numbers of relatively unskilled that will enter the Indian labour market in future. The service sector hardly can provide jobs for all, and manufacturing offers more attractive trading opportunities than services. The upgrading of Indian software firms has been facilitated by their pursuit of international quality accreditations, as there are more ISO-9000 accredited software companies in India than in the United States. However according to Enderwick (2007:138 - 141) it is not obvious that India will be able to maintain its lead in IT and business processing services. India's cost advantage in services has been eroded by rising wage costs and the need to provide perks. Enderwick points out that as the competition position of India in the distance future, demographic trends become the key factors. India's population is growing a twice the rate of China's, and India's working population is likely to exceed that of China's in 2040.

FDI inflows have historically been concentrated in the services and technology sectors, with global investors looking to take advantage of India's low-cost, high-skilled labour and outsourcing capabilities. Anyhow, latest data suggests that the sector mix is starting to change. Services and It-business have begun to decline over the last four years, with real estate, telecoms and infrastructure (power and construction) picking up the slack. While it is expected that service sector remains an important magnet for FDI, also it is expected that the share of FDI into consumer- and infrastructure-oriented sectors to grind steadily higher. Rising per capita incomes and banking penetration should see FDI focus more on domestic market opportunities instead of typical outsourcing one. Also the governments drive to boost infrastructure – in power and transport- should encourage foreign players into the market. (Asia Monitor 2010.)



**Figure 3.** Populations Median Age (in years): 2010

The figure above shows that young population (under 25 years) accounts for about 60 % of India's total population. (In Finland the average age for men is 39, 6 and women 42, 5 and in Sweden, men 41, 2 and women 39, 7). The India's urban population accounted for 29 % of the total population in 2007 and is the second-largest in the world. It is projected to reach 37.8 % by 2025.

## 2.2. Political environment

India is a multi-ethnic, multi-religious, federal republic of 28 states and 7 union territories. The country has a bicameral parliament, including the indirectly-elected Upper House, the Rajya Sabha (government assembly), and the directly-elected Lower House, the Lok Sabha (people's assembly). The judiciary is independent and the legal system is based on English common law. National and state legislatures are elected for five-year terms, although terms may be extended in an emergency and elections held early if a government is unable to maintain the confidence of Parliament. (ICON Group International 2007.)

India's economic policy outlook can be divided into two sections: macroeconomic stability and structural reform. India will continue to maintain macroeconomic stability in the future. The government and the Reserve Bank of India (RBI, The Central Bank) will ensure that inflation remains in check, fluctuation in interest rates is kept to a minimum and exchange rates are managed to ensure that Indian exports remain competitive which helps to provide a sound environment for the private sector. However, structural reforms will continue to be diluted by the constraints of coalition politics—in particular the demands of the government's Left Front allies. The Left Front has successfully halted privatisation, stalled labour reform, attempted to limit foreign investment and pushed through fiscally unsustainable social-welfare programmes.

The prevalence of corruption in private sector in India is a function of the environment created by the top management or the owners and the government laws and regulations. It is common to manipulate accounts and conduct transactions off the books to avoid taxes and make black money. Corruption in India is widespread especially in the public sector. The deep-rooted patronage systems, bureaucracy, and weak governance contribute towards these high levels of corruption. India's Supreme Court has been taking an active stance in fighting corruption. The judiciary especially at the higher levels is considered competent and fair, recent judicial sector reforms are said to have reduced the huge backlog of cases and increased efficiency. (Economics 2011.)

According to Das-Gupta and Mookherjee (1997) one of the major problems to the tax collection agencies in developing countries like India is that a large number of potential taxpayers do not file their income report. In the early 1960s, the Government of India viewed corruption as a top priority and appointed a high-powered committee to look into corruption. The committee made a detailed study and made a number of



recommendations. However the anticorruption measures over the last decades have not met with any success and corruption has grown. Corruption does not seem to prevent India from growing. Anyhow the country would be doing much better without it as corruption raises costs not just to Indians, but also to the foreigners whose capital India needs, in part due to the scandals, India's stock market was the worst-performing outside the Muslim world over the past year. (Economics 2011.)

One of the most common areas of corruption in the private sector is the purchasing department in their dealings with private sector suppliers. A business purchases a large variety of items including raw materials, supplies and services. There has been a little decline in India's Integrity Score from 3.5 in 2007 to 3.3 in 2010, on a scale from 0 (perceived to be highly corrupt) to 10 (perceived to have low levels of corruption). India's rank on Transparency International's Corruption Perception Index (CPI) is 87 out of 178 countries indicating a serious corruption problem in India and that the country continues to be kept as more corrupt as in the past. Perception about corruption in India seems to have increased primarily due to alleged corrupt practices in the recently held Commonwealth Games in Delhi. The Prime Minister Manmohan Singh has been strongly against the damaging effect that bribes, extortion and fraud have on all levels of life, and warned that the problem threatens India's future economic prospects. The Supreme Court of India's pronouncements regarding police reforms are awaiting implementation. The political establishment has shown little will to address these measures. (Corruption Perception Index 2010.)

It could be argued that the Indian bureaucracy has at the same time held on to a large number of the discretionary and monopoly powers of British times providing strong incentives for corruption. The Indian administration has also retained most investigative powers within the bureaucracy and retained a high degree of secrecy and transparency has not been a priority. It is a truism in Indian businesses that one needs reliable finance and accounting staff to ensure the confidentiality of such transactions. Sweetheart deals involving gifts, override commissions, one-time kickbacks and the like, are all common in India, and not uncommon in more industrially advanced countries like the US. (Heston & Kumar 2008.)

According to Heston and Kumar (2008) there is room for a wide range of administrative practice across the states of India, even when legislation is national in scope. Sometimes the authorities are kind; the customs fee at Kolkata seaport is lower than at Mumbai port. This is because of the fact that bureaucrats are mindful of the difference in cost of living

between the two cities and have factored these differences in their fee structure. There are regional differences in many other areas of administration and corruption. Differences across the states of India offer scope for better understanding of which institutions or practices are associated with more or less corruption. Bihar is said to be the most corrupted state. Also it is known that Andhra has been for 10 or 15 years perceived by foreign firms to be an attractive state for investment, in part because governance there is less corrupt.

Although India has achieved respectable to high levels of economic growth there hasn't been any reduction in corruption. In fact the extent of corruption has increased. This may be illusory because there is more information in recent years through the wider dissemination of cases of corruption by watchdog groups and daily treatment of corruption cases in the media. (Heston & Kumar 2008.)

Despite the constraints on the ruling coalition, four positive factors are at work: reforms undertaken in the past have ensured that in several areas of the economy the private sector already has the critical mass needed to drive growth and the pressure from the rising middle class and private-sector firms has ensured that there will be no reversal of past reforms. The middle class is also a vital driver for domestic demand growth. As well, on non-controversial issues where there is political consensus, such as improving infrastructure, reducing red-tape, and improving the business environment, the government is making some progress. Lastly, macroeconomic stability will be maintained throughout the forecast period. (The Economist Intelligence Unit Limited 2009.)

Democracy is well entrenched within India's political system, but is complicated by tensions over religion, ethnicity and a deep-rooted patronage system. Also the extreme diversity within India's socio-economic environment exists in the varied political cultures and ideologies across the country. The legislative environment from state-to-state differs very much as states have significant autonomy. Coalitions led by either the Indian National Congress (Congress) or the Bharatiya Janata Party (BJP) has traditionally dominated federal level politics. (The Economist Intelligence Unit Limited 2009.)

### 2.3. Cultural environment

Based on the research of Hofstede (1980, 2001), there are differences between national and organizational cultures. For global companies, it is important to understand both in order to impact organizational performance.

It is essential to understand and design organisational culture which aligns well with national culture of the country. It can be considered to be the bone marrow of an organisation which provides strengths and immunity to compete. It allows organisations to address the ever changing adaption problems to the external environment and internal integration of organisation's resources, personnel, and policies to support external adaption. (Pool 2000.) The term organisational culture is synonymous with organisational climate (Hofstede 1997). Hofstede defines five cultural dimensions such as power distance, collectivism/individualism, femininity/masculinity, uncertainty avoidance and long-term / short-term orientation. Hofstede also defines organisational culture as the collective programming of mind which distinguishes members of one organisation from another. According to Deshpande and Webster (1989); Weick (1985) it is the pattern of shared beliefs and values which help individuals to understand an organisation and to provide them norms for job behaviours. Hofstede et. al (1990) have observed that culture involves beliefs and behaviours; it exists at various levels, and manifests itself in a wide range of features of organisational life. Culture is viewed as well as a level of practice and behaviour as how things are done (Drennan 1992).

**Table 2.** Values for Finland, Sweden, India and China according to Hofstede's prediction.

	<b>Finland</b>	<b>Sweden</b>	<b>India</b>	<b>China</b>
<b>Power distance (scores)</b>	Low power distance (33)	Low power distance (31)	High power distance (77)	High power distance (80)
<b>Collectivism/Individualism (scores)</b>	High individualism (63)	High individualism (71)	Low individualism (48)	High collectivism (20)
<b>Uncertainty avoidance (scores)</b>	Medium uncertainty avoidance (59)	Low uncertainty avoidance (29)	Low uncertainty avoidance (40)	Low uncertainty avoidance (40)
<b>Long-term/short-term orientation (scores)</b>	Short-term orientation	Short-term orientation	Long-term orientation (61)	Long-term orientation (118)
<b>Feminism/Masculinity (scores)</b>	High feminism (26)	High feminism (5)	High masculinity (56)	High masculinity (66)

Hofstede (1984) identified that India has high power distance, high masculinity, low uncertainty avoidance, low individualism and a long term orientation. According to Hofstede, Sweden and India are quite similar on both uncertainty avoidance and individualism. Sweden scored 29 and India 40 in uncertainty avoidance. Swedish people avoid conflicts and may therefore not communicate dissatisfaction to their Indian counterparts. Data shows Sweden and China share a same level on this value. Their scores are very close to each other and the rank indicates they are both low uncertainty avoidance countries. According to Hofstede's prediction, both of the two countries hate formal rules and they are tolerant of ambiguity and chaos. People in both countries are innovative so they have more trademarks. Therefore the Indian employees take lack of negative feedback as a sign of satisfaction.

According to Gislén and Venugopal (2008), Indian companies in it-sector have experience working with the American clients who communicate their dissatisfaction much more directly. As well they argue that Americans as well as Indians may say great from average but acceptable performance, when Swedes would not give any positive feedback unless the performance is well above the expected which can sometimes cause dissatisfaction for the Indian staff. Swedes on the other hand can work well without structure and will have a high tolerance for ambiguity.

According to Berglund and Löwstedt (1996) Swedish culture can be described in assertion of four cultural characteristics. Swedes are a quite homogeneous population, which has throughout history allowed refinement of the Swedish mentality and way of doing things; as well Swedes are reserved in terms of trust and in their approach to other people just like Finns. The common Swede likes to avoid conflicts, but is still clear and direct to express a standpoint, which can be understood as a diplomatic approach. Finally, there is a strong belief among Swedes that rational planning and orientation can accomplish much; a way that easily can be understood as risk and uncertainty avoidance, or at least a risk minimizing, approach.

Finland is a feminine country according to Hofstede (1984) and therefore there are many women in Finland's parliament. Finland is also perceived by businesspeople as being fourth least corrupt country in the world. The Finns score medium on uncertainty avoidance which results in their being rather less flexible than other Scandinavian countries. In the business area, the Finns keep a fairly low profile, which can cause problems for foreign managers as they have to decide which role or profile they have to adopt with Finnish colleagues. This can be exacerbated by the Finns tending to keep a

fairly low profile in terms of communications, speaking little and avoiding show-downs. In Finland, silence is not equated with failure to communicate but as an integral part of social interaction. (Importnet 2011.)

The Finns and Japanese are quite the same, but are slowly learning that they have to interact more. The Finnish concepts of space and time are clear-cut and unambiguous; they expect punctuality, but being early is not perceived to be a good use of time. The Finns possess a solidity that makes them reliable and they expect the same from others. Setting clear goals and defining objectives will help in negotiations; they like to have their responsibilities well defined, but do not like close supervision, preferring to work more solidly on their own and producing their own achieved result. Finns would describe themselves as warm hearted, tolerant, independent, democratic, individualistic, resourceful, capable of acting alone, cannot lose face, and making no real attempt to charm. (Importnet 2011.)

According to Schwartz (1994) and his model of national values, Finns are characterized by quite high intellectual autonomy, egalitarian commitment, and harmony. This could reflect orientation towards self-transcendence, preference for cooperation rather than competition, autonomy preferences in organizing work, trust in followers, and openness for change and ideas. The leadership in general may be oriented to development rather than maintaining the status quo. The leaders may as well indicate employee orientation rather than task orientation. At top management levels, the leaders may emphasize team spirit, effective communication, open dialogue, and consensus in making decisions. They also may pay attention to the organization design in detail.

Indians have a unique culture which is different from the culture of East Asia. Their communicative style is more loquacious than the Chinese's, Japanese's or Koreans' and they are as dialogue orientated as most Latin's. Privacy is rarely indulged and even more rarely sought. Indians make little attempt to hide their feelings. Values include: family orientation, honour of both family and group, material success and creativity, problem-solving, risk takers and experimenters, loyalty to professional group, do-it-yourself mentality, fatalism and 'savvy' at business. The leadership style is hierarchical with obligations and duties, on the boss and on the subordinate. There is a strong work ethic, but they do not work by the clock. Easy acceptance of foreigners in business dealings, and familiarity with many items but tempered by suspicion of the iniquity that

the foreigners may bring with them. Nepotism is a way of life in traditional Indian companies and trade groups help each other out when needed. (Importnet 2011.)

Indian English is flowery, old fashioned and verbose and it is a sympathetic language showing respect and often humility to the listener. Indians remain polite in meetings while modifications are proposed and repackage energetically to reach an agreement. Indians hate turning down business. Although collectivist within their own group, when dealing on their own with outsiders they can develop individuality and brilliance, being clever at buying and selling using great skill. Equality for women is becoming a major issue, new developments in their own silicon valley are giving them confidence. Indians treat older people with deference, the family structures are important; they also have high tolerance for ambiguity. One should share gains and losses equitably, irrespective of contractual agreements. (Importnet 2011.)

In India there are approximately 3000 communities and Indians believe in the concept of 'fatalism' which stems from one of the most characteristic traits of Indian culture — spirituality. The Karma and the belief that everything happens for a reason is still significant in the decision making process of many Indian people. It even influences the concept of time in India and therefore business negotiations may take longer and are never rushed. (Gorrill 2007.) India's strong sense of community and group defined orientation means a lot for Indian business practices which places an additional importance on interpersonal contacts, avoidance of conflict and a more indirect approach to communication.

India is a home of diverse languages, dialects, rituals, and ceremonies. Unity despite diversity has been the cardinal mantra of nation's journey since ancient days. The Indian socio-cultural dimensions of high power distance, low masculinity and high context-sensitive thinking are incompatible in organisations. Indian employees can embrace global work values by keeping at the same time deep connection to their societal culture (Pearson & Chatterjee, 1999.) It is said that India as well has blindly applied American management ideas and practices with little modifications just like several other developing countries (Jager 1990). According to Bedi (1995) in India people generally have deep faith in maintaining long-term relationships with each other. Anyhow there has been a significant change as hopping from job to another has become increasingly common among the younger people. Employment in India is considered to be an

extension of social justice (Khandwalla, 1990). According to Sinha (1990) Indians have a strong distinction between insiders and outsiders and prefer loyalty and dependability over efficiency and independence. This leads to the fact that the best western cultural practices used to enhance employees work motivation may have to be examined and implemented with caution in India as satisfaction of the lower order needs may be more important to many employees. Research on Indian work culture indicates high power distance, collectivism and affective reciprocity which are major cultural values for Indian managers, when foreign companies start up their business in India they are likely to face problems in understanding beliefs and values inherent in Indian culture. Organizational cultural differences may pose another challenge for managing JVs. Pothukuchi et al. (2002), found that IJVs formed between Indian and foreign partners were affected more by differences in organizational culture than by differences in national culture.

The Yes syndrome in India, based on the experience, Indian staff often say yes, when Westerners would say not sure or no. Asians in general are culturally more hesitant to give negative answers compared with Americans and Europeans. When it is question of management style, Western managers would, in general, not ask frequently the progress report, as it would be considered as lack of trust on the employee. In India, if the manager's don't follow up frequently, then the task itself would be perceived as an unimportant task. Also the Western managers often focus mostly on managing outcome rather than behaviour and Indian managers' focus more on behavioural control. Westerners take more risks and make reasonable assumptions before proceeding with something and it is considered better to deliver on time with some errors than not keeping the deadline instead of the Indians who often wait till everything is crystal clear. (Gislén & Venugopal 2008.)

Gopalan and Stahl (1998) states that globalization of business is likely to have a tremendous impact on lifestyles and role relationships, especially in developing countries like India. The foreign multinational companies are more likely to confront with a tradition and culture which purely symbolize "closed economies" for centuries and as a result will have difficult times ahead to build as well as manage organizational culture for any kind of competitive advantages. Though the general mindset of people in India has undergone significant change in the satisfaction of social needs, especially the need for achievement, they are to a greater extent still more parochial in thinking, feeling, and behaving.

According to Fusilier and Durlabhji (2001) when you do business in India you have to understand similarities that hold this diverse country together and as well the differences that underlie the country's hundreds of indigenous languages and various ways of life. Deshpande and Farely (1999) found in a study comparing culture in Indian and Japanese companies that the Japanese firms are highly consensual than Indian firms and also that Indian firms are more highly entrepreneurial than Japanese firms. Research on Indian work culture indicates that high power distance, collectivism and affective reciprocity are major cultural values of Indian managers (Chhokar, 2000; Sinha, 1997). With respect to uncertainty avoidance, Hofstede (1980) notes that Indians are high on uncertainty avoidance but a study by Chhokar (2000) found Indians to be moderate on uncertainty avoidance.

In the IT industry in India today, working from 10 to 12 hours a day is normal and sometimes this goes up to 14 hours a day, even on weekends. Sometimes, employees stay overnight at the office when they have a project deadline. One major reason is the time difference between India and customers, particularly those in the US and Europe, and employees in India have to stay to make calls to customers in the US and UK who are just beginning their work days. Another reason is the tight and often underestimated project costs and time frames in terms of 'mandays' where teams have to put in extra hours to meet stringent deadlines or engage in 'firefighting' crises. In various forums, developers have complained about how projects were so tightly estimated. (D'Mello & Eriksen 2010.)

Many writers have tried to differentiate Indian and western work culture in many ways. As according to Kumar and Sethi (2005) Indian managers embody both individualistic and collective values. This implies that the Indian manager may behave differently in different situations. As an individualistic, the Indian manager can be very aggressive and goal oriented. As a collective, the Indian manager may be sensitive to the needs and wishes of the people in his/ her group. One of the true implications of this culture is that the western manager may find it difficult to fully comprehend the behavior of his Indian counterpart. In table 2 the primary factors on business environment are presented indicating the possibilities and challenges of the Indian market.



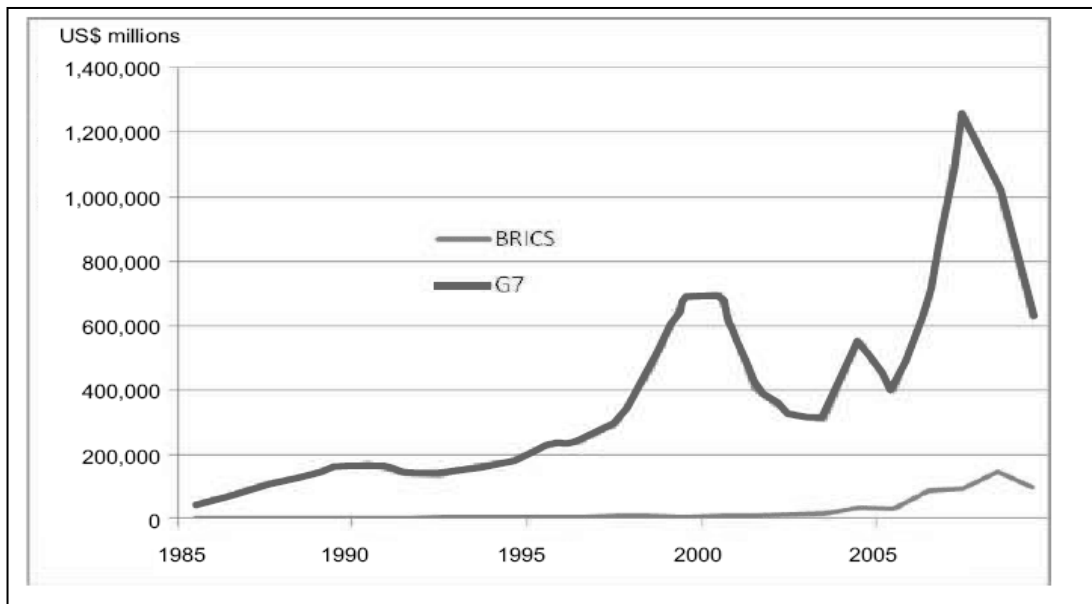
**Table 2.** The primary factors on business environment in India.

<b>THE PRIMARY FACTORS ON BUSINESS ENVIRONMENT IN INDIA</b>	
<b>Possibilities</b>	<b>Challenges</b>
Expected rapid growth of economy & market	Political instability
4 <sup>th</sup> most attractive investment destinations in the world	FDI Restrictions, behind in inviting FDIs, Politization of investment decisions
Nine mega industrial zones	Complex business environment, Indian companies family-owned
Youthful middle class of 300 mn, which enjoys high savings, rising wages, better access to credit and fewer government restrictions on foreign goods	Regulatory changes impacted by coalition politics
Potential market size	Poor physical infrastructure (roads, ports, airports)
Middleclass of 300 million people	Corruption, Bureaucracy
Huge consumer market	Under developed consumer market, Widely varying consumer tastes across regions
Low cost of labour	Restrictive labour laws e.g. exit options
Huge natural resources	Professional management at lower level
Knowledge-based economy	Service sector dilemma
An enviable IT manpower	Slow legal process
Growing number of engineers and scientists	Gap between rich and poor
English one of the official languages	Government's inability to control the inflation
A strong and diversified manufacturing base for production of various goods	The country's state-owned enterprises including the electricity sector are generally inefficient. High cost of and unreliable power.
India is a youthful nation – more than half the population is under the age of 30.	Diseases – inadequate health service
The savings and investment ratios have gone up	Laborious and time-consuming process to start a business
Action package from the Indian government for the development of urban infrastructure	Low penetration levels due to low urbanization

#### 2.4. Global FDI flows and the role of FDI in India

According to UNCTAD (2011) the Global FDI flows declined again in the second quarter of 2010, after four quarters of low-level recovery in the wake of the financial crisis. FDI inflows in the second quarter were down compared to the previous quarter and compared to the same quarter of last year. Early estimates for 2010 based on FDI flows for the first and second quarter, combined with data on Greenfield investments and Mergers and Acquisitions -related flows for the third quarter, now lead to a picture of stagnant FDI activity so far for the year. That would imply that 2010 flows will still

be 25 % less than last year. Transnational corporations (TNCs), reacting to disappointing economic news and turmoil in sovereign debt markets, moved resources invested out of many host countries. This was clearly reflected in a marked decline in intra-company loans, one of the three components of FDI flows, as parent firms withdrew or was paid back loans from their affiliates in order to strengthen their balance sheets at home or elsewhere. Likewise, reinvested earnings tumbled as firms repatriated a larger share of the earnings of their foreign affiliates.



**Figure 4.** Total FDI outflows from G7 and BRICS countries. (UNCTADStat 2011).

The Indian market can be said to be the key future markets for foreign investors. The Indian economy shows solid economic growth since the economical reform started in 1991, and the number of middle class households is continuously increasing. The purchasing power is rising in India and the Indian market has huge potential for foreign investments. The Indian market is a market the Nordic companies should not miss because of its future importance. With a fast-growing economy, emergent domestic market, well-educated workforce and independent judiciary, India presents an attractive witnessing a combination of moderation in growth and rising inflation bringing uncertainties UNCTAD has ranked India at second place in global FDIs in 2010. (UNCTAD 2011).

Especially the wind energy sector has destination in the global marketplace (Industry week, 2009). Although growth in most advanced economies has declined in the second

quarter of 2011 and also the emerging markets are attracted FDI worth US\$ 328.87 million over the past three years to India and because in the renewable energy sector, wind energy has emerged as the fastest growing category in India, according to Dr Farooq Abdullah, Union Minister for New and Renewable Energy (IBEF, 2011). India ranks even before East European countries and rising stars like China or Russia because the Indian market combines low market saturation with stable economic growth and moderate political risk. India's share of FDI inflows into Asia increased to roughly 11 % in 2008 from just 2.4 % in 2000. According to Asia Monitor of April 2010, FDI flows into India have shown signs of recovery in the wake of the global financial crises, and there are investors looking to take advantage of the country's attractive long-term growth potential. It is expected the inward FDI to continue gathering pace, particularly into consumer- and infrastructure -oriented sectors.

Levels of FDI in India have risen dramatically during the past decade with inflows rising to USD 41 bn in 2008, compared to USD 2 bn in 1990s. FDI dropped sharply as a result of the global financial crisis, to an estimated USD 38 bn in 2009. It can be estimated that FDI will be nearly double over five years and to reach USD75 bn in 2014. Interest has been strong in services, property, construction, information technology and telecommunications. The congress-led government of India is expected to focus on attracting FDI in infrastructure and to work to improve India's business environment. It is expected also to raise investments limits in a number of sectors and to further streamline investment procedures. Anyhow the government's willingness to undertake dramatic reforms will be limited. FDI in India are forbidden from only a few sectors which could mean national –security threat or be politically unpopular. FDI proposals will generally continue to receive automatic approval following the guidelines issued by the central bank of India. (Business India Intelligence 2010.)

India permits 100 % foreign equity in most industries. Firms setting up in export processing zones or special economic zones or operating in electronic technology parks, or operating as 100 % export-oriented units also may be fully owned (Country Commerce 2009.) The OECD Report on India of 2009 says that India needs to strengthen and liberalise its regulatory framework and invest more in infrastructure in order to attract increased FDI in India. According to the report restrictions on large-scale investments has been eliminated and many public sectors have been opened up to private companies. Import substitution and protectionism have been replaced by an open trade regime. But still there are reforms needed, when we compare India with most

OECD countries, it can be noted that India's policy framework for FDI still remains restrictive.

One of the main challenges for India is to take full advantage of economic growth in order to reduce the gap between rich and poor. While the national economic growth of India has been impressive, the gap between the richer and poorer Indian states has widened. In order to attract FDIs to India, recommendations are listed like further relaxing restrictions on inward FDIs in sectors like banking, insurance and retail trade, reviewing of remaining FDI restrictions to ensure they do not cost more than they benefit, developing a FDI statistics for states and Union Territory, strengthen corporate transparency and increase internationally-recognised standards and practices.

In India policy reforms remain incomplete but the free pricing of domestic share issues, the floating of Euroissues, foreign portfolio investment in Indian companies, setting up of private mutual funds and the privatisation of public companies have altered the scope of the market and its impact on investment. According to Acharya (1998:3) the investment opportunity lies in the potential for higher growth as India continues to liberalise more and more. For those companies interested in investing India, the critical task is to identify the opportunity and timing for one's entry into the market to gain advantage.

Successful entry into emerging market requires that the investor undertakes a comprehensive competitor analysis. Competition is offered by a number of different groups of firms, primarily indigenous businesses and early mover investors. (Enderwick 2007: 79.) Foreign investors entering emerging markets like India may find them attractive in terms of size and growth, but this must be understood in the context of a likely high level of competition, both from domestic and other foreign investors. The foreign investors should not underestimate the competitive strengths of domestic firms in India. (Enderwick 2007: 82.)

According to Enderwick (2007:76), India has also experienced growing inequality in the years since reform, which is apparent both geographical and sectoral terms. India is divided into 28 states and seven union territories, anyhow strong growth has been experienced in only four states – Gujarat, Karnataka, Maharashtra, and Tamil Nadu, which are growing significantly faster than other states. While these states account for only 25 % of India's population and 35 % of output, they attract 70 % of FDI approvals. This has caused the widening of the gap between the very richest and poorest states.

The four high-growth states have created a virtuous circle where their growth attracts considerable investments, both domestic and foreign, fuelling further growth. The growth rate was high prior to the reforms, as these states had economic structures biased toward services and industry rather than agriculture. As the reforms favoured services and industry and not agriculture, these same states experienced higher growth rates. The coastal location of these states also favoured them and also has the largest cities, such as Mumbai and Chennai, which can be considered to have benefited a lot from the more liberal environment. Today greater decentralization means that state governments compete to attract investments on the basis of generous incentives. Some states have invested in improvements in infrastructure, particularly power provision.

**Table 3.** The regional division of FDIs in India. (Dept. of Industrial Policy and Promotion).

State / Union Territory	Million USD	% of FDI
Maharashtra, Dadra & Nagar Haveli, Daman & Diu	9131	24,5
Delhi area	7562	22,7
Tamil Nadu, Pondicherry	2505	7,5
Karnataka	2260	6,8
Andhra Pradesh	1276	3,9
Gujarat	1000	3

Contrary to popular opinion, investing in India involves investing in a quite high-costs structure for industry, except for the labour costs. Many Indian companies are family-owned and professional management skills exist only at lower level but not at the top level. This does not apply to public sector or multinational companies in India. Anyhow it is not sure that these companies even survive better as it has been experienced that both in these cases, ownership does not lie with the managerial issues but with the government, or was shared with a foreign partner leading to sclerosis of management. Together with the onset of liberalization and competition, companies in India more and more recognize the importance of professional management in the succeeding in their long term survival strategies. (Acharya 1998: 246-247.)

One hinder for the growth of FDIs to India is the fact that the country has to overcome the current service sector dilemma. Service sector growth should be supported with manufacturing growth as Indian population of 1.1. Billion people cannot be employed in service sector alone. India needs manufacturing boom to move idling labour force

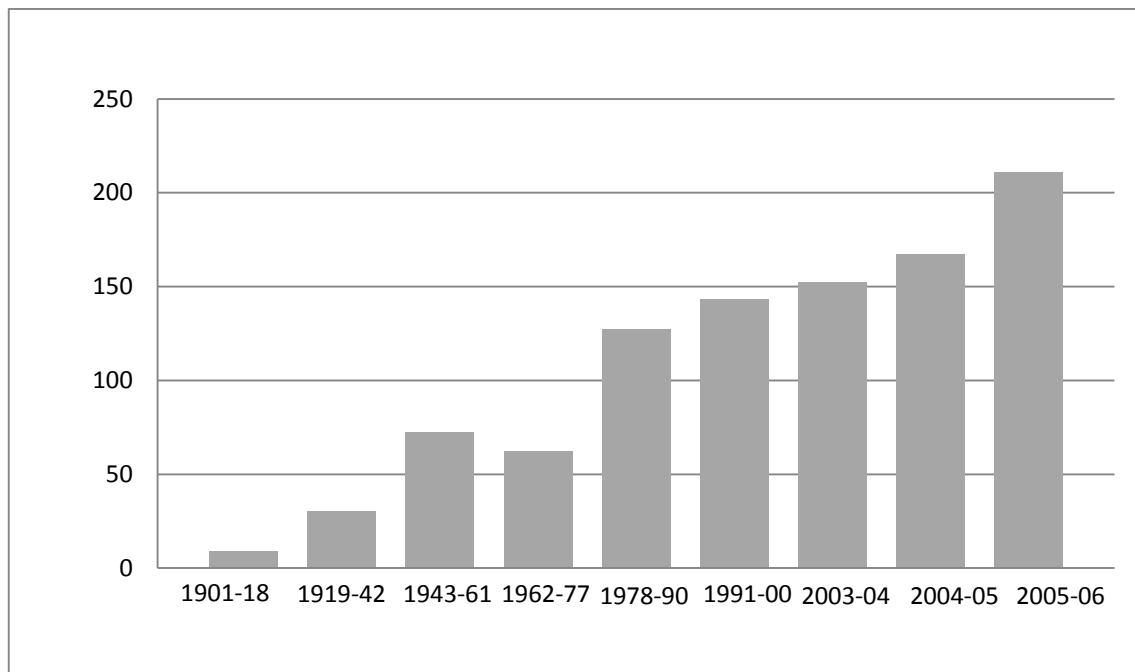
from agriculture, as 67 % employed in agriculture produce 22 % of GDP, manufacturing is the answer to employ India's growing population that will exceed 1.5. Billion by 2050 (IMF 2005). As well it is evident that India has to move towards skill-neutral mass manufacturing. Also according to modern techniques such as just-in-time management, and third party leasing and operations should be adopted to improve efficiency. (Sinha 2008.) The current Indian bureaucracy and policy will thwart cataclysmic changes but Indian intelligentsia and intellectuals have to take leadership and proper economic growth.

## 2.5. FDI in different periods in India

A critical understanding of the history and characteristics of FDI in India also provides a sound background to understanding the context of globalisation in India. Therefore FDI in different periods in India is described here. It can be seen very clearly that FDI growth slowed down in 2008–2009 due to the sub-prime crisis. India's policy has been to encourage technology imports without financial support by the technology supplier in order to boost the technological development. The recipients of foreign technology were expected to absorb the technology and develop further with the help of their own R & D and without the restrictions imposed by foreign collaborators. According to Bhaumik et al. (2004) another reason for discouraging foreign investment, especially in low technology items was to encourage local industry to come up and to conserve foreign exchange which the foreign investment would have entailed in the form of dividend payments and dependence on imports. Today, India welcomes FDI in virtually all sectors except defense, railway transport and atomic energy. In the overall globalization process, India as a host country has been significant since the early nineteenth century and the interest of multinational enterprise in India has been prominent for a long time. As a major force of change both in economic and social transactions, the phenomenon of globalization and multinational enterprises in India during the last two decades has given rise to a variety of complex issues for discussion. These issues can be classified into two broad areas, macroeconomic issues of home country and firm level issues of foreign firms. (Nayak, 2008:1.)

India was an agricultural-based economy at the beginning of 1900 and the main commercial crops were cotton, tea and jute. The industrial policy in India was not clearly articulated and there seemed to be little barrier to foreign investments in the country as in other parts of the world. India was a colony of the United Kingdom during

this time and the investments from Britain dominated foreign trade and investments in India but also the Japanese trading companies had made some investments in India. By the end of World War I in 1918, Britain's position in India had weakened. Also, the United States and Japan emerged as powerful nations. These political developments had some bearing on the pattern of foreign investment. The American companies in India were General Motors, Ford Motors and Colgate-Palmolive. By 1928, Japan emerged as one of the largest cotton trade partners of India. At this time India was still attractive for British investments. The introduction of import duty seems to have activated the foreign companies to make direct investments in product manufacturing in India. FDI in Indian manufacturing industries started in the true sense during the 1930s, as many British and Dutch companies started to invest in local manufacturing in the 1930s, e.g. Unilever bath soap and cooking oil.



**Figure 4.** Number of Foreign Companies registered in India, 1901 – 2006 (Nayak 2008:44) and (Financial Express 2007).

Between 1943 and 1945, 14 foreign companies were registered in India. Direct investment by foreign companies, activated in the 1930s, was enhanced and encouraged by both the Indian business houses and by the newly formed Government of India during the period. In India a system of five-year plans was adopted for planning industrialization and development. The government faced the need for foreign technology and foreign capital for industrial growth. It can be noticed clearly a shift of

governments' FDI policy in 1962 – 1977 as almost 80 foreign companies ceased their operations in India and the number of joint ventures from all foreign countries decreased dramatically during this period of time. The Indian government made a series of policy changes in export and import policies between the years 1978 -1990. Although the number of joint ventures and the amount of FDI in India fluctuated, the amount of FDI increased nearly 13 times and the number of foreign companies registered in India also doubled. (Reserve Bank of India 2009.)

According to Bhaumik, Beena, Bhandari and Gokarn (2003) the government made it easier for the companies to invest in India. There are sectors that where companies can own up to 100 % of their Indian affiliates without government approval, the question is of road and port infrastructure, mining of gold and minerals, and pharmaceuticals. Government approval can be gained for 100 % foreign ownership in generation of power and development of integrated townships. In sectors like media and insurance companies are restricted to minority stake, and a government approval is needed prior to initiation of business.

According to the Reserve Bank of India (2009) the number of foreign companies registered in India during 2005-2006 was higher at 211 compared with 167 in 2004-2005 and 152 in 2003-2004. According to the survey by Federation of Indian Chambers of Commerce and Industry (Ficci) 70% of foreign investors were making profits from their India operations and 83% were considering expansion of business, although the dissatisfaction with the condition of roads and highways was the main worry of foreign investors. (Financial Express 2007). The poor balance of payments position and pressure of IMF and World Bank to liberalize the Indian economy forced the government to accelerate the pace of liberalization.

While the share of FDI from traditionally dominant countries like UK and USA fell, the share of FDI from other countries, including counties from Asia and the European Union increased from 53 % in 1991 to 86 % in 2000. (Reserve Bank of India 2009.) In 2010 the number of foreign companies in India was already over 3 000. (Reserve Bank of India 2011).



**Table 4.** Country-wise FDI flows to India between 2006 – 2011 (Reserve Bank of India 2011).

Country-wise Inflows US \$ million					
	2006-2007	2007-08	2008-09	2009-10	2010-11
<b>Mauritius</b>	3,780	9,518	10,165	9,801	5,616
<b>Singapore</b>	582	2,827	3,360	2,218	1,540
<b>U.S.A</b>	706	950	1,236	2,212	1,071
<b>Cyprus</b>	58	570	1,211	1,623	571
<b>Japan</b>	80	457	266	971	1,256
<b>Netherlands</b>	559	601	682	804	1,417
<b>United Kingdom</b>	1,809	508	690	643	538
<b>Germany</b>	116	486	611	602	163
<b>UAE</b>	215	226	234	373	188
<b>France</b>	100	136	437	283	486
<b>Switzerland</b>	57	192	135	96	133
<b>Hong Kong</b>	60	106	155	137	209
<b>Spain</b>	62	48	363	125	183
<b>South Korea</b>	68	86	95	159	136
<b>Luxembourg</b>	–	15	23	40	248
<b>Others</b>	1,055	2,699	3,035	2,376	1,184

Sweden Investment Agency (2011) informs that Swedish investments to India are just under US\$ 1 billion which does not reflect profits which have been ploughed back by Swedish MNCs. The total flow of FDI from Sweden to India amounted to 12,880.0 million from 1991 to 2002. The amount of FDI from Sweden to India stood at 2104.8 million in 2003, in 2004 this figure increased to 3439.2 million, and in the next year this figure came to 1377.9 million. Finland ranks in the 28<sup>th</sup> position among foreign countries investing in India, in 2004 the amount of FDIs from Finland to India were 59 million €, and in 2007 it was 332 million €.

According to Finpro (India Country Report, 2010) the amount of FDIs in India has gone down since year 2008 and the investments are now concentrating more on service sector. India has been trying to get as many FDIs since the beginning of its economy reform and India's rapidly growing markets offer an attractive expansion base for foreign companies. Anyhow the development of FDIs has been slow and India has got only a fraction of the FDIs compared to those of China. Most of the foreign investments are drawn to India by fast growing consumer markets and low wages. According to the United Nations, India's population will exceed that of China by 2028. India is growing very fast when we look at their consumer markets, although the average buying force

per citizen is still low, you can find enough consumers with sufficient purchasing power for products from abroad. As per Finpro's country report (2010), India has a huge versatile raw material resources and educated cheap working force.

The dramatic increase from the tax paradise Mauritius and from the Indian companies outside India took place in the 1990. Therefore Mauritius is on the first position on the list of ten biggest investing countries in India. In terms of shares, FDIs from Mauritius into India can be compared with those from Hong Kong to China. (Journal of Asian Economics 2005).

Investing in an Indian company is no different to investing in companies in any other country. Anyhow it is essential that any investor has some understanding of the company one invests in by understanding its products or services and the costs involved in producing them, which is the best investment advice one can get from the company. It may be better not to invest in a company if one does not know what the company produces or has no idea of the costs incurred in its production. It may be difficult sometimes to check out the company's production facilities and meet management on site. Only labour is cheap, many Indian companies are family-owned and with the onset of liberalization and competition, Indian companies increasingly recognise the importance of professional management in the success of their long-term survival strategies. This does not mean that the family-owned companies are not well-managed. On the contrary, the vested interest of the family can ensure that returns on capital employed are maximised. (Acharya 1998:246.)

The investor can benefit from spotting companies that have survival strategies in place, studies show that India's private corporate sector has the ability to rise to the challenge, but whether the management strategies will lead to success or failure largely depend on e.g. cost of production. It is the goal of the investor to identify correctly the major variables in the Indian economy and gauge the sensitivity of the value of companies to changes in expectations regarding those decisive factors. Having identified those companies as potential investments, it is simply a matter of being patient and waiting for the right time to invest aggressively. (Acharya 1998:246.)

With respect to host-country situation, the strategy of foreign firms has been to seek resources, markets and efficiency and more often these strategies are short-term strategies. In the host country, foreign firms have sought to start their business from where they left off in their home market. This becomes a mismatch since two situations

generally differ (Nayak 2008:51). Over the last hundred years, patterns of direct investment of the foreign companies in India have changed from the colonial period (1900s - 1947) to the development period (1947-1990), and the period of economic liberalization (1991 onwards). FDI strategies of companies have differed from country to country and industry to industry. Foreign companies which have followed the same strategies have succeeded in some periods and failed in others.

Holistic investment means investment in sales and marketing, local manufacture, complementary or support industry and other social sectors, according to the study of Nayak (2008) it could be noted that the nature and characteristics of a typical developing country poses the biggest threat for returns on investment, poor basic infrastructure of transport, communication and utilities, industry structure with poor coordination, undeveloped ancillary and support industry, unclear regulatory and market pose severe problems for a new investment trying to take off.

Acharya (1998:174) points out that understanding the risks involved in investing in India and being able to manage them effectively implies greater cooperation between investors and corporate concerned. Investors either have the option of trading the market volatility or devoting their time to identifying managements and building up an investment-oriented relationship with them. In a newly liberalised market, where both investors and the companies involved are in the process of learning, the secret of successful investing is to know the risk. Correctly assessing one's risk is what investing is all about. If an investor learns to manage the risk of investing in India, the reward will look after itself.

## 2.6. Summary

The Indian market can be said to be the key future markets for foreign investors. The purchasing power is rising in India and the Indian market has huge potential for foreign investments. Earlier on India was one of the lowest recipients of FDI among developing countries until the 1970, and India is still far too behind China in attracting FDI, but it has done remarkably well in recent years when we compare it with its own past performance. One of the main challenges for India is to take full advantage of economic growth in order to reduce the gap between rich and poor. While the national economic growth of India has been impressive, the gap between the richer and poorer Indian states has widened. As well India has to overcome the current service sector dilemma. Service

sector growth should be supported with manufacturing growth as Indian population of 1.1. Billion people cannot be employed in service sector alone.

It can be estimated that FDIs to India will be nearly doubling over five years to reaching USD75 billion in 2014. Interest has been strong in services, property, construction, information technology and telecommunications. Foreign investors entering emerging markets like India may find them attractive in terms of size and growth, but this must be understood in the context of a likely high level of competition, both from domestic and other foreign investors. The foreign investors should not underestimate the competitive strengths of domestic firms in India.

Considering the political environment in India, corruption in India is still widespread especially in the public sector. The deep-rooted patronage systems, bureaucracy, and weak governance contribute towards these high levels of corruption. As well bureaucratisation is affecting the business and the reforms have few negative issues, the policy is still to protect small firms and thereby to prevent entry of larger and more solvent firms, with greater economies of scale. Democracy is well entrenched within India's political system, but is complicated by tensions over religion, ethnicity and a deep-rooted patronage system. Also the extreme diversity within India's socio-economic environment exists in the varied political cultures and ideologies across the country. The legislative environment from state-to-state differs very much as states have significant autonomy.

The national culture in India has a strong sense of community and group defined orientation means a lot for Indian business practices which places an additional importance on interpersonal contacts, avoidance of conflict and a more indirect approach to communication. Research on Indian work culture indicates that high power distance, collectivism and affective reciprocity are major cultural values of Indian managers. It is also said that India as well has blindly applied American management ideas and practices with little modifications just like several other developing countries.

### **3. KEY ASPECTS OF FOREIGN DIRECT INVESTMENT AND FDI MOTIVES**

In this chapter a brief introduction to the definition of foreign direct investments will be presented. This chapter will also provide review of the main motives for companies entering into IJV as a mode of entry into foreign markets; market seeking, resource seeking, efficiency seeking and strategic assets seeking.

#### **3.1. Key aspects of foreign direct investment**

The study of international joint venture (IJV) motives has attracted constant attention in business literature. According to Dunning (2003) when the companies expand into new international markets, they aim to gain access to some opportunities, which are not available in their home country. The joint venture term has according to Luostarinen (1990) two major meanings, joint contractual venture and joint equity venture. A joint contractual venture is an association implying collaboration for a certain purpose between partner for certain period of time and do not share equity of the cooperating firms. Both partners are at the same level, without any buyer-seller relationship. A joint equity venture involves always sharing of equity and risks and as well participating in management between partners forming a continuing, profit-seeking relationship.

Traditional theory perceives internationalization to be a demanding, lengthy, step-by-step process. The FDI subject has attracted many researches during several decades, and the subject has been studied from many different points of views. The best known and most used theory of investments is by John Dunning (1997, 1998), the so called eclectic paradigm. The OLI-paradigm offers a good framework for understanding why FDI flows occur. The eclectic paradigm predicts that companies invest abroad when they get firm-specific advantages. Dunning's eclectic paradigm seeks to offer a general framework for determining the extent and pattern of both foreign-owned production undertaken by a country's own enterprises and also that of domestic production owned by foreign enterprises (Dunning 1993:76). The paradigm prescribes a conceptual framework for "what is" rather than "what should be", the level and structure of foreign value activities of enterprises. The theory of multinational enterprises activity stands at the intersection between a macro-economic theory of international trade and a micro-economic theory of the firm. The eclectic theory starts with the acceptance of much of traditional trade theory.

The OLI-theory is a mix on three various theories of foreign direct investment that are concentrating on various questions. According to the paradigm, the internalization of economic activities is determined by three groups of advantage, ownership, location and internationalization. In case a company is capable and willing to supply a foreign or domestic market from a foreign location depends on their being able to acquire certain assets which are not available or not available so favourably to other country's companies. These assets are so called ownership-specific, O-advantages. The ownership advantages include both tangible assets, such as endowments, manpower and capital and intangible capabilities like technology, information, managerial, marketing and company skills, organisational systems and access to final goods markets.

A firm specific advantage is used intangible and can be transferred within the multinational enterprise at low cost (e.g. technology, brand name, benefits of economies of scale). The advantage gives rise to higher revenues and /or lower costs than can offset the costs of operating at a distance in an abroad location. A multinational firm operating a plant in a foreign country is faced with additional costs parallel to a local competitor (Dunning 1993:77.) These costs can be a failure of knowledge about local market conditions, legal, institutional, cultural and language diversities or the increased costs of communicating and operating at a distance. If a foreign firm is to be successful in another country, it brings some kind of an advantage that vanquishes the costs of operating in an abroad market. The firm must be able to earn higher revenues, for the same costs, or have lower costs, for the same revenues, than comparable native firms. Since merely abroad firms have to pay "costs of foreigners", they must have other methods to earn higher revenues or have lower costs in order to be able to stay in business. (Dunning 1993.) From a global perspective the environment for subsidiary operations has improved partly as a result from the broadening in the countries of origin of foreign direct investment. (Luostarinen & Welch 1990).

The multinational firm must have some separate advantage with its competitors, if it wants to be profitable abroad. Advantages must be particular to the firm and readily transferable between countries and within the firm. These advantages are called ownership or core competences of firm specific advantage (FSAs). The firm has a monopoly over the firm specific advantages and can utilize them abroad; resulting in a higher marginal return or lower marginal cost than its competitors, and thus is more profitable. There are three basic types' ownership advantages for a multinational enterprise, that it can possess. Monopolistic advantage that a multinational enterprise receives in the form of privileged access to output and input markets through ownership

of scarce natural resources and patent rights, etc. Technology, knowledge broadly defined so as to contain all forms of innovation activities. In addition economies of large size (advantage of common government), broader access to financial capital throughout the multinational enterprise organization, and advantages from international diversification of assets and risks. (Dunning 1993:77.)

The firm must have some foreign factors in connection with its native firm specific advantages. Therefore the Location Advantages or Country Specific Advantages of different countries are key in determine which will become host countries for the multinational enterprises. Clearly the relative attractiveness of various locations can change over time so that a host country can to some extent engineer its competitive advantage as a location for foreign direct investment. The country specific advantages can be separated into three classes: economic advantages consist of the quantities and qualities of the factors of production, transport and telecommunication costs, scope and size of the market etc., political advantages include the common and specific government policies that influence inward FDI Flows, intrafirm trades and international production. Social, cultural advantages include psychic distance between the home and the host country, language and cultural diversities, general attitude towards foreigners and the overall position towards free enterprise. (Dunning 1993:77.)

According to Larimo (1995) earlier cost of labour and availability of natural resources were the most distinctive factors explaining the choice of FDI to be located in a developing country instead of a developed country. Later on the meaning of these factors have been less dominating and other factors are more important, e.g. more positive attitude towards FDI and adaption of various investment incentives in developing countries.

The international advantages stem from the capacity of the firm to manage and co-ordinate activities internally in the value-added chain. The multinational enterprise has several choices of entry mode, ranking from the market (arms' length transactions) to the hierarchy (wholly owned subsidiary). The multinational enterprise chooses internationalization where the market does not exist or functions poorly, so that the transactions expenses of the external route are high. The particular know-how or core ability is an asset that can give rise to economic rents for the firm. These rents can be earned by licensing the firm specific advantages to another firm, exporting products using the firm specific as an input, or adjustment subsidiaries abroad. (Dunning 1993:77.)

According to Kumar (1990:31) the distribution of foreign shares is highly uneven across different branches of manufacturing. The intangible assets theory of FDI (Hymer 1960; Kindleberger 1969, and Caves 1971, 1974a) and its various extensions (Dunning 1979; Rugman 1981) predict an uneven interindustry distribution which depends upon the existence of ownership and internationalization advantages. A number of studies have examined the determinants of foreign shares in different countries.

The results from the study by Larimo (1999) analysing the FDI behaviour of Nordic firms in CEE –countries showed that the location, ownership and form of investment strategies indicated clear differences in the behaviour between Nordic countries. According to the study the size of investing firm and timing of investment significantly influenced the location, ownership, and form of investment decision. The same study showed that Swedish firms seemed to have been the most active in FDIs.

### 3.2. Motives for investments

FDI theories posit three types of motives for firms to engage in FDI. Dunning states (1993: 54) that MNEs are motivated primarily by the way they think it is the interest of their stakeholders more than they are of their wider community which they are part. The stakeholders include employees, managers and shareholders.

The interest of the management and employee of an affiliate of an MNE will not necessarily meet with those of the parent company. Conflicts can occur on distribution of surplus profits, decisions about the capital structure of the affiliate, and also on the shearing of risks and responsibilities, the sourcing of inputs, the kind of market shared, the timing of income flows and the amount of production undertaken by the affiliate. Dunning (1993:54.) FDI also includes investments which are based on the motive behind the investment from the perspective of the investing firm.

#### 3.2.1. Market Seeking

Investments target at either penetrating new markets or maintaining existing ones. FDI of this type may also be employed as defensive strategy; it is argued that businesses are more likely to be pushed towards this kind of investment out of fear of losing a market rather than discovering a new one. This kind of FDI can be distinguished by the foreign Mergers and Acquisitions in the 1980's by accounting, advertising and law firms. According to Dunning (1993: 58) there are companies that invest in a particular country



or a particular region to supply goods to these markets or in adjacent countries. The companies have earlier exported to this country, but due to tariff or other costly barriers imposed by host countries or because the size of the market now justifies local production, are not best supplied by this route. A company may also replace its exports to a foreign market by investing in a third country and exporting to that market from there. Market seeking investment may be undertaken to sustain or protect existing markets or to exploit or promote new markets. Companies can gain bigger size of market and market growth as well as the reason for their market seeking can be that main suppliers or customers have set up foreign producing facilities and therefore they have to follow them to overseas.

Second reason for market orientated FDI (Dunning 1993: 58) is the need of adaption to local needs or tastes. As well without familiarizing them with local language, business customs, legal requirements and marketing procedures, foreign producers' might find themselves weak compared with the local companies selling consumer goods like washing machines. The third reason for serving a local market from an adjacent facility is that the production and transaction costs are less than supplying it from a distance. It is evident that this decision will be highly industry- and country- specific. The production of that are relatively costly to transport and can be produced saving costs in small quantities is more likely to be located near the main centres of consumption than are those that cost relatively little to transport and yield substantial economies of scale in their production.

Companies from countries that are geographically removed from important markets are more likely to engage in market-seeking FDI than those that are nearby those markets. There may be also government regulations, import controls or strategic trade policy which may prompt companies to relocate their production facilities. The fourth and very important reason for market –seeking investment is that an MNE may consider it necessary, as part of its global production and marketing strategy, to have a physical presence in the leading markets served by its competitors. Aggressive investments are those designed to advance the global interests of a company by investing in an expanding market. Host governments encouraging investments (impose of tariffs or other import controls) are the most important reason for market-seeking.

### 3.2.2. Resource Seeking

Investments which seek to acquire factors of production are more efficient than those obtainable in the home economy of the firm. In some cases, these resources may not be available in the home economy at all (e.g. natural resources, naturally occurring materials such as coal and cheap labour). This characterizes FDI into developing countries, for example seeking cheap labour in Eastern Europe and Southeast Asia. The presence of risk and uncertainty into factor or products markets adds the complication in evaluating the motivation of firms. According to Dunning (1993:57) companies are investing abroad to acquire specific resources at a lower cost than they could obtain in their home country. The motivation for FDI is to make the investor more profitable and competitive in the market acts or is planning to act. There are three different types of resource seekers; those looking for physical resources, mostly minerals, raw material and agricultural products but especially those whose production requires such complimentary capabilities and markets. Those MNEs are especially well equipped to provide. The second group of resources seeking MNEs includes those seeking plentiful supplies of cheap and well motivated unskilled or semi-skilled workers. MNEs from countries with high labour costs, acquire subsidiaries in countries with lower labour costs, to supply labour intensive intermediate or final products for export. The third type of resource seeking FDI is prompted by the need of firms to acquire technological capability, management or marketing expertise and organizational skills.

The most important single reasons the British companies indicated in investing in India was the need for local facilities or resources and of secondary reasons were spreading of risk and obtaining the benefits of local identity. (Tomlinson 1970:31).

### 3.2.3. Efficiency Seeking

Investments which firms hope will increase their efficiency by exploring the benefits of economies of scale and scope. It is suggested that this kind of FDI comes after either resource or market seeking investments have been realized, with the expectations that it further increases the profitability of the firm. Usually this kind of FDI is mostly widely practiced between developed economies; especially those within closely integrated markets (e.g. the EU).

The intention (Dunning 1993:59) of the efficiency seeking company is to take advantage of different factor endowments, cultures, institutional arrangements,

economic systems and policies, and also market structures by concentrating production in a limited number of locations in order to supply multiple markets. Normally the efficiency seekers will be experienced, large and diversified companies which produce quite standardized products and used internationally accepted production processes. Earlier such FDI's occur once resource based or market-seeking investments have become sufficiently numerous and important to warrant some degree of rationalization. For efficiency seeking foreign production to take place in cross-border markets must be both well developed and open, therefore this is popular in regionally integrated markets. The efficiency seeker is likely to be a global corporation competing on the basis of the products it offers for sale and capabilities by exploiting the benefits of having production in many countries.

#### 3.2.4. The strategic assets seeking

According to Dunning (2003:60) the fourth group of MNE comprise of those which engage in FDI, normally by acquiring the assets of foreign corporations and to promote their long-term strategic objectives – especially that of sustaining or advancing their international competitiveness. The motives for strategic assets seeking investment is less to exploit specific cost or marketing advantages over their competitors than add to the acquiring firm's existing portfolio of assets, which will strengthen their competitive position or weaken the position of their competitors.

The strategic asset acquires aims to capitalize the benefits of the ownership of diversified activities and capabilities just like the efficiency seeker does. A company may inject their own organizational systems and management styles into the companies they acquire although they do not take care of everyday management. In case of great majority of investments, the companies expect the investing project will bring some benefits to the rest of the organization e.g. new R & D synergies or production economies, lower transaction costs, giving strategic flexibility and better risk spread. (Dunning 2003:60.)

Dunning (2003:60) also categories other motives for MNEs for investments. One group is escape investments as some FDI is made to escape restrictive legislation or macro-organizational policies by home governments. Escape investments are obviously most likely to originate from countries whose governments strongly interventionist macro-organizational policies. Another group is support investments of which purpose is to support the activities of the rest of the enterprise which they are part. Affiliates like this

are seldom self-contained profit centres. Among support investments are trade-related investments of MNEs designed to promote or facilitate exports of goods or services from the investing companies. This kind of value-added activity which MNE trading affiliates undertake include not only wholesale and retail distribution and marketing, but also a whole range of import facilitating which they undertaken on behalf of the investing company. There are also investments that are called passive investments. With passive investments you mean portfolio investment (Dunning 2003:62) which is presumed to involve passive management whereas direct investments is presumed to include active management. According to the study by Tomlinson (1970:27) on British companies that would have preferred to invest through a fully owned subsidiary or branch, because they thought such a procedure would not be permitted in India.

In early 1990s India started its economic liberalization by permitting joint ventures with foreign firms with certain restrictions on the foreign equity holdings in some priority sectors. In early 2000, foreign equity restrictions were taken away, and wholly owned subsidiaries of the foreign firms were allowed in virtually all manufacturing and service sectors (excluding some core and strategic sectors). This caused widespread buy-out of the existing joint ventures by the MNCs and in some cases the MNCs even set up subsidiaries to compete with their already existing joint venture counterparts (Sinha 2008.)

Nayak (2008) states that foreign firms have been motivated to invest in the developing host countries primarily because of availability of resources and markets in the host countries. Foreign firms have also been motivated by lower factor costs for production in the developing countries. Further, location advantage and ownership advantage has been key driving factors for foreign firms to invest in host countries. According to Dunning (2003) MNEs invested in a host country only when they found both ownership advantage and location advantage, of which location advantage is more important factor.

In the study on the history of FDI in the late 19<sup>th</sup> and early 20<sup>th</sup> century shows that the initial motivation for firms to engage in FDI was to find resources in foreign markets and by the end of the Second World War many of the world's natural resources were in the hands of large multinational enterprises. Dunning et al. (2003) also noted resource seeking among many other factors as a motivation for firms to move outside their home markets. Also recent studies with reference to FDI from USA to Thailand and from Japan to USA, provide evidence to the resource-seeking factor behind FDI.

Another important motivation for firms to engage in FDI has been to take advantage of the low cost of production in the host countries. Increase in FDI in developing countries in Asia in the last two decades has been largely explained from this point of view. Other factors explaining FDI are lower capital cost, favorite interest rates and lower wage rates, host country's path and pace of structural reforms and openness to trade have influences firm on FDI decisions. Also potential market demand, openness to world trade, and lower labour compensation levels have been reasons for the flow of FDI. Chakrabarty, (2006) found that a host country's openness to trade has a better correlation with its inward flow on FDI than with other variables like tax, wage, exchange rate, tariff, growth rate of GDP or trade balance. Political instability, low intra-regional trade and the small size of national markets can be seen as a reason for low amounts of FDI. While foreign firms find it convenient to operate in a host country that provides good infrastructure and several incentives; good infrastructure in a host country lends lesser opportunity to a foreign firm to ground itself in such a host country and it can play only a limited role there.

Large unexplored markets have been another factor for FDI by foreign firms in developing countries as foreign firms had to move out of their home markets to new markets in the less developed and developing countries to sell their products. Anand and Delios (2002) showed that the Japanese firms were motivated to find new markets in India and were the first companies investing in India. It has been argued that there are significant differences between the motives of developing and developed country IJVs.

According to the results of the study by Tomlinson (1970), on the British IJVs in India and Pakistan, the British managers had chosen the most important motives. For the companies in the study, primary motives seemed to have been reserved for market development and protection. Lower cost conditions were not considered to be significant in most cases, nor host government incentives. The need to match competitors was not recognized in the study. The changed business and investment environment compared to the previous studies has created new impediments. Most developing countries are nowadays open to business with much fewer restrictions and barriers to FDI. Example of such country is India which investment climate is significantly different from the periods when the earlier studies were conducted. Before 1991 the IJV format was the most common mode of FDI in India, since 1991 it has not been the legislative requirement for FDI in India. Because of this one cannot say anymore that the main motives of FDI in developing countries IJVs is to fulfil legislative requirements. (Lal & West 1997.)

**Table 5.** Host country determinants of FDI in UNCTAD (1998) and Dunning (2001)

<p><b>1. Policy framework for FDI</b></p> <ul style="list-style-type: none"> <li>• economic, political and social stability</li> <li>• rules on entry and operations</li> <li>• standards of treatment of foreign affiliates</li> <li>• policies on functioning and structure of markets</li> <li>• international agreements on FDI privatization policy</li> <li>• trade policy and coherence of FDI and trade policies</li> <li>• tax policy</li> </ul> <p><b>2. Economic determinants</b></p> <p><b>3. Business facilitation</b></p> <ul style="list-style-type: none"> <li>• investment promotion (including image-building, investment facilitation)</li> <li>• investment incentives</li> <li>• hassle costs (related to corruption, administrative efficiency, etc.)</li> <li>• social amenities (bilingual schools, quality of life, etc)</li> <li>• after- investment services</li> </ul>	<p><b>A. Market seeking</b></p>     <p><b>B: Resource seeking</b></p>     <p><b>C. Efficiency seeking</b></p>     <p><b>D. Strategic asset seeking</b></p>	<ul style="list-style-type: none"> <li>• market size and per capita income</li> <li>• market growth</li> <li>• access to regional and global markets</li> <li>• country-specific consumer preferences</li> <li>• structure of markets</li> </ul> <ul style="list-style-type: none"> <li>• raw materials</li> <li>• low-cost unskilled labour</li> <li>• skilled labour</li> <li>• physical infrastructure (ports, roads, power, telecommunication)</li> </ul> <ul style="list-style-type: none"> <li>• cost of recourses listed under B and knowledge-bases assets, and technology and innovative capacity</li> <li>• other input costs, e.g. transport and communication costs and costs of other intermediate products</li> <li>• spatial clusters and membership of a regional integration agreement conducive to the establishment of regional corporate networks</li> </ul> <ul style="list-style-type: none"> <li>• knowledge-based assets, including localized tacit knowledge and interactive learning</li> <li>• synergistic assets to MNEs</li> <li>• technological and innovative capacity and other created assets (e.g. brand names)</li> <li>• different cultures and institutions</li> </ul>
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There are three different types of resource seekers; those looking for physical resources, plentiful supplies of cheap and well motivated unskilled or semi-skilled workers and the third type of resource seeking FDI are prompted by the need of firms to acquire technological capability, management or marketing expertise and organizational skills. Investments which firms hope will increase their efficiency comes after either resource or market seeking investments have been realized, with the expectations that it further increases the profitability of the firm.

Table 5 describes the host country determinants of FDIs. When we compare the determinants between India, Finland and Sweden, it is clearly to be seen that the economic, political and social stability, rules on entry and operations, standards of treatment of foreign affiliates policies on functioning and structure of markets international agreements on FDI privatization policy, trade policy and coherence of FDI and trade policies tax policy stable in the Nordic countries but not as stable in India. On the other hand India has huge consumer market and the market seems to be growing.

What comes to resource seeking, India has huge natural resources as well as excellent cultural inheritance and has low-cost unskilled labour whereas Finland and Sweden are not so rich in raw material, however both countries have skilled labour, although ageing work force. Physical infrastructure (ports, roads, power, telecommunication) are in poor condition in India, which is one of the most important obstacle for entering the Indian market. In Finland and Sweden the technological and innovative capacity is high, therefore both countries has a lot of technology and know-how to offer to India.

Corruption in India is widespread especially in the public sector, and India is ranked high as a corrupted country, whereas all Nordic countries were among the top ten least-corrupt nations based on the latest corruption index.

## 4. PARTNER SELECTION CRITERIA

This chapter gives information on how important the selection of right partner is for the success of joint ventures. It can be stated that the success of e.g. international joint ventures investing in emerging markets, seems very much to depend on the selection of local partners. When companies form IJV, foreign parent firms must identify appropriate criteria for local partner selections together with the relative importance of each criterion. The criteria can be classified into two categories relating to tasks or operations and partnership or cooperation. In this chapter also the level of trust is discussed as trust between partners is an important factor that contributes the success of IJV.

### 4.1. Task -related partner criteria

A partner who has superior strategic traits but is lacking strong organizational and financial attributes lead to an unstable joint venture. (Luo 1998). Geringer (1991) stated that task -related criteria is associated with the strategic attributes of partners including competence in marketing, relationship building, market position, industrial experience, strategic orientation, and corporate image. Task-related criteria include the operational skills and resources needed by a venture to achieve success in the market, and is related to the effectiveness of cooperation between the partners. Such variables include patents, technical knowledge, experience of management, and access to marketing and distribution systems, financial resources, in other words a wide range of variables, tangible or intangible, human or non-human.

Geringer's (1991) typology of task-related and partner-related selection criteria was used as a basis for determining the partner selection criteria employed by foreign investors from newly industrializing economies. Geringer suggested that despite the almost unlimited range of alternative criteria it is possible to provide a two-fold typology of categories of selection criteria, task-related selection criteria which are associated with operational skills and resources for ventures competitive success, e.g. patents, financial resources, experienced managerial personnel etc. Geringer's typology is more comprehensive than other partner selection frameworks such as Tomlinson's (1970) six categories of selection criteria: Forced (governmental direction), Facilities (to site, plant), Resources (managerial and technical personnel), Status (dealing with local authorities and PR), Past (Previous JV association), and Identity (local identity- "sleeping partner"). Among these categories it was agreed by the respondents of the



study that favorable past association was the most important criteria. Partners need to communicate their goals and the type of contribution that can be made to the partnership before the formation of the joint venture. It is crucial that both partners agree on maintaining transparency during communication to ensure equal knowledge – a vital requirement for the achievement of common goals (Lemak et al. 1994.)

#### 4.2. Partner –related partner criteria

According to Geringer (1991) partner –related criteria includes organizational issues such as organizational leadership, organizational rank, and ownership type, learning ability, foreign experience and human resource skills. To go into more detail, partner related criteria are concerned with variables which are specific to the character, culture and history of the involved partners, for example past association between partners, compatibility between the partners' management teams, the national or corporate culture of the partners, a partner's organizational size or structure. With cash flow-related criteria is meant financial attributes like profitability, liquidity, leverage, and asset management. Strategic, organizational and financial characteristics are all crucial to IJV performance.

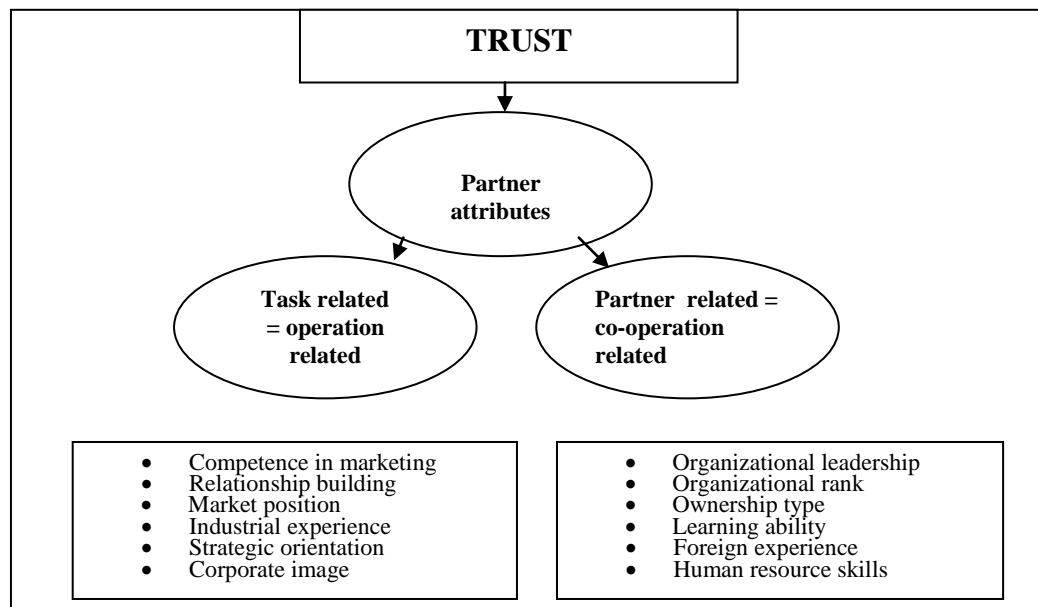
According to Hamel (1998) when it is question of the value creation aspect of alliance formation, perhaps the most critical determinant of value creation is the degree to which partners' contributions are complementary. Partner-related selection criteria come into question only if the chosen investment mode involves the presence of multiple partners. Examples of these are the national or corporate culture of a partner, compatibility of trust of between partners' management teams, the degree of favorable past association between the partners etc.

Tatoglu (2000) utilized Geringer's typology in investigating the aspects of selection criteria in Western joint ventures formed by local partner organizations in Turkey. He found that the most important partner related criteria for the sample of joint ventures are partner's knowledge of the local market, trust between top management teams, and reputation of partner and partner's ability to negotiate with Turkish Government. The most important task-related selection criteria are access to knowledge of local market and local culture and access to distribution channels.

There can be different objectives between the foreign firms and their Indian partners. The foreign firms enter India with a long-term vision willing to make initial losses for

long term profits, Indian firms in contrast want immediate profits. This leads to a clash in their plans, forcing the foreign firms either to set up WOS, or get controlling stakes in IJV. (Chowdhury & Chowdhury 2001.) Hitt et al. (2000) studied the partner selection in emerging markets and found that emerging market firms preferred developed market partners willing to share their expertise and make an effort to teach this knowledge to the m.

A study by Nielsen (2002) identified the importance of partner selection criteria for an international strategic alliance. The importance of partner selection criteria differs significantly with certain sample characteristics, mostly administrative governance form and foreign partner nationality. The study showed the relationship between motivational intent and partner selection criteria, emphasizing the importance of inter-partner fit along several dimensions simultaneously, including strategic intent, task- and partner-related criteria. Nielsen was surprised to find that Danish firms kept very important the criteria related to market development when selecting a foreign partner, indicating a relationship between prior international alliance experience and certain partner selection criteria. It seems that firms with earlier experience in international alliances focus more on task-related partner selection criteria pertaining for later stages in the internationalization process whereas firms with no prior experience pay more attention to partner-related criteria associated with complementarities and partner fit.



**Figure 6.** Partner selection criteria.

In the study by Tomlinson (1970:49) the prime reason for selecting a partner in India for the British companies was favourable past association. It seems that if a sufficiently favourable past association exists this would lead a foreign partner company to consider such association at an early stage of forming an IJV. According to the study several British JV parent companies decided that it was more effective to bring necessary technical skills represented by this type of management than rely on less-sophisticated local alternatives. Some of the executives stated that particular joint ventures would not have been possible without the managing agency system. (Tomlinson 1970:52.)

Although international companies are entering the Indian market through JVs with Indian partners, India is not so popular destination for IJVs, based on evidence of the past two decades. Before 1991, JVs were mandatory for foreign companies seeking to enter India. Even today, after liberalization, many of the large and fast-growing sectors of the economy, such as retailing, consumer banking, telecommunications and media, require an Indian partner. Therefore the foreign partners enter into these JVs without really desiring an Indian partner but forced to have one for market access. Often the Indian partner has few industry-specific competencies to contribute beyond local knowledge. (Kumar 2009.)

On the other hand the Indian partners believe they have substantive contributions to make to the JVs, high expectations of contributions from the foreign partners, and disproportionate power in the relationship because local laws are on their side. The result is a significant mismatch in expectations between the two partners. Unlike companies in neighboring regions such as the Middle East or Southeast Asia, Indian partners are not interested in being passive as investors in their JVs but prefer to have at least a 50 % holding and, in most cases, prefer a controlling interest. Their expectations of the major multinational corporations which are their foreign partners are also high. They expect the foreign partners to be rather non-interfering, freely share their distinctive and superior expertise with respect to processes, systems and technology, be willing to train Indian JV executives and accept that these executives may be transferred to other companies that are wholly owned by the Indian partner, provide a strong reference if the Indian partner needs to raise funds for other ventures, direct business to the JV company from their operations in other countries and, if possible, from their customers as well. (Kumar 2009.)

The McKinsey study showed that most of the IJV got into trouble because the Indian partners were unable to invest enough to expand the business quickly and match the

ambitions of the foreign partners. One solution may be to allow the foreign partner to increase its stake in the joint venture in return for disproportionately funding its growth. Anyhow this can be problematic as well, because the Indian investor is either unable to dilute its share for legal reasons (it may be required by law to maintain a minimum equity participation) or is unwilling to do so. Since the economic liberalization of the early 1990s, the Indian government has gradually allowed foreign companies to operate alone or increase their stake in many industries. Therefore a large number of Indian JVs have lost their reason for existence from the foreign partners' perspective. They either wish to buy out the Indian partner or set up an independent unit separate from the existing joint venture. This part of the JVs in India has been rather unpleasant. The foreign partner is normally in a hurry to exit, and the Indian partner finds itself with an exceptionally good negotiating hand. In case, instead of exiting, the foreign firm wants to setup an independent unit in the same business as the IJV, the Indian government requires the foreign company to first obtain a "no-objection" certificate from its local partner.

Given the poor track record of partnerships, some foreign companies are reluctant to invest in India. One India-based financial consultant was quoted in the Wall Street Journal: "Anyone who gets into a IJV in India should assume it will fail and be comfortable with the terms of what happens when it does fail." Recent foreign entrants that must still pursue the Indian market through IJVs, due to restrictive government policies, realize that these JVs have no success. Therefore nowadays detailed separation clauses are now part of the IJV agreement. Overall, India is rapidly moving away from the era of IJVs. (Kumar 2009.)

#### 4.3. Trust

Trust between partners is an important factor that contributes the success of IJV (Curall & Inkpen, 2002; Inkpen & Curall, 2004; Madhok, 2006). According to Beamish (1993, 2006) trust is important in the success of IJVs in developing countries and as trust can be managed easily, it can be seen as a means to facilitate the achievement of the objectives of an IJV (Sheppard & Tuchinsky, 1996). Fryxell et al. (2002) suggested that age and partner trust have moderating effects on the relationship between mechanisms and perceptions of performance. Cultural misunderstanding is a particular problem that is quite common with IJVs (Baird et al., 1990), but the risk is not so big if there is a high degree of trust between the parent companies. Therefore trust can be seen to

moderate the effects of certain factors of IJV performance and the level of trust interacts with certain organizational factors to affect IJV outcome.

Trust in this context refers to information on a partner's probable behaviour during the cooperative effort. A study by Demirbag, Weir, and Mirza (2002) looked at the role of trust in a sample of manufacturing joint ventures within Turkish IJV partners. According to the study trust was a critical component for understanding the performance of IJVs. Yet without knowing the details of the alliances in question, most manufacturing alliances would seem to be similar to the joint ventures with a supplier focus, and would then be unilateral in nature. Similar to the argument made above in relation to inter-party credible threats, trust may be easier when behaviour is observable. For bilateral ventures where outputs are less measurable, trust may be harder to maintain making efforts to control this aspect of the relationship even more important. Trust is viewed as an important component to IJV success since it induces desirable behaviors such as knowledge sharing, reduces resistance to knowledge transfer, and increases co-operation between individuals and firms (Das & Teng, 1998; Koza & Lewin, 1998).

According to Inkpen and Tsang (2005), trust between acquiring and acquired companies is another source of impact on technology acquisition the presence of distrust and conflicts between these firms is more likely to give rise to misunderstanding, confusion and anxiety, and reduces the level of collaboration and thus hinders knowledge exchange. Trust is even important in reducing the dysfunctional interaction in strategic alliances. (Killing, 1989). Trust between partners is said to be a bridge between their past experiences and anticipated future. (Salmond 1994).

Parkhe (2000) in his work on trust in international alliances states that international alliances are proliferating and that trust is critical to successful international alliances. The level of trust and cooperation differs across countries. Indians have the lowest level of trust and cooperation of participants. The countries in our study are culturally and economically varied. For example, Sweden is a relatively rich and politically stable country while India has a low income per capita, a high level of corruption, and higher income inequality. The highest level of trust and cooperation was found in Sweden, followed by the average contribution in the Latin American countries. Indian participants contributed the smallest amounts of trust.

#### 4.4. Summary

The success of foreign multinational companies investing in emerging markets, very much depends on the selection of local partners. When companies form IJV, foreign parent firms must identify appropriate criteria for local partner selections together with the relative importance of each criterion. The criteria can be classified into two categories relating to tasks or operations and partnership or cooperation.

Task-related criteria include the operational skills and resources needed by a venture to achieve success in the market, partner related criteria are concerned with variables which are specific to the character, culture and history of the involved partners. Geringer's typology is more comprehensive than other partner selection frameworks such as Tomlinson's (1970) six categories of selection criteria: According to Hamel (1998) when it is question of the value creation aspect of alliance formation, perhaps the most critical determinant of value creation is the degree to which partners' contributions are complementary. There can be different objectives between the foreign firms and their Indian partners. The foreign firms enter India with a long-term vision willing to make initial losses for long term profits, Indian firms in contrast want immediate profits.

Trust between partners is an important factor that contributes the success of IJV, trust is important in the success of JVs in developing countries and as trust can be managed easily, it can be seen as a means to facilitate the achievement of the objectives of an IJV. Cultural misunderstanding is a particular problem that is quite common with IJVs (Baird et al., 1990), but the risk is not so big if there is a high degree of trust between the parent companies. In the study by Tomlinson (1970:49) the prime reason for selecting a partner in India for the British companies was favourable past association. Therefore the foreign partners enter into these JVs without really desiring an Indian partner but forced to have one for market access. Often the Indian partner has few industry-specific competencies to contribute beyond local knowledge. Therefore a large number of Indian JVs have lost their reason for existence from the foreign partners' perspective. They either wish to buy out the Indian partner or set up an independent unit separate from the existing joint venture.

## **5. MANAGEMENT AND PERFORMANCE OF IJV**

In this chapter the management of IJVs is discussed and especially aspects on ownership and management control in IJVs and performance. According to Morris (1998) management of IJV is not easy, as it requires special cooperation from the partners because no party has total control and the accountants must have special knowledge and skills in order to function well in IJV situation.

### **5.1. Level of ownership**

According to Luo et al. (2001) the ownership position in IJVs is a critical issue although there isn't any clear evidence on the relationship between equity control and IJV performance. Ownership and control are arguably the most critical aspects of joint venture creation and management. There are researchers who have reported of positive relationship (Killing, 1983; Delios and Beamish, 2004), and those of negative relationship (Beamish, 1984; Lu, 2000) or no clear relationship at all (Kogut, 1988; Steensma and Lyles, 2000) between dominant foreign equity control and IJV performance. In order to be able to compete in a foreign location, a company must have certain ownership advantages that can compensate for the additional costs for operating abroad. There are costs which domestic producers do not face and some of these ownership advantages may also stem from nationality of the firm (Dunning: 1998). The results from this group of studies have been mixed.

What can be said of majority equity ownership it is considered to be an attractive mode of operation because it offers significant advantage to the majority parent. It also reduces the complexities associated with the decision making process and consequently promotes flexibility and speed of organizational responses to environmental change (Lewis, 1990). Consensus building, an essential ingredient of more equally shared ownership ventures, is time consuming and often a drain on resources. In case of deadlocked partners, the venture is unable to progress toward the goals it set out to achieve (Killing, 1982). Majority ventures overcome these failings of the shared control mode of operating joint ventures.

Shared ownership gives the opportunity for both partners to be involved in key strategic decisions as equal partners, thus helping them gain intimate familiarity of the operations of the venture. Therefore the partners can leverage significant synergies through their cooperative effort enabling the venture to perform better (Bleeke & Ernst, 1991; Lewis,

1990; Lynch, 1989). Kogut and Singh (1988) found that IJVs are a more preferred mode of entry than wholly-owned subsidiaries in culturally distant countries implying that foreign parents can benefit from local partners in a culturally distant country.

In emerging market, economies like India, the government has allowed the formation of IJVs with certain restriction on foreign equity holdings in the earlier stages of their liberalization. Anyhow gradually India is opening up its economies allowing the foreign firms to set up wholly owned subsidiaries in many sectors. This policy shift causes instability in the joint ventures formed in the initial stage of liberalization. In early 1990s India started its economic liberalization and permitted joint ventures with foreign firms with certain restrictions on the foreign equity holdings in some priority sectors. In early 2000, foreign equity restrictions were removed, and wholly owned subsidiaries of the foreign firms are allowed in virtually all manufacturing and service sectors but not in core and strategic sectors. (Chalapati, Murthy & Ranganathan 1999.)

This policy change causes widespread buy-out of the existing joint ventures by the MNEs and in some cases the MNEs even set up subsidiaries to compete with their already existing joint venture counterparts. For example Shriram Industrial Enterprises Limited of India formed a joint venture with Honda of Japan. Honda later raised its stake in the joint venture. General Electric decided to buy-out its Indian partner in the GE Apar Lighting joint venture. Apart from the buy-outs that occurred in most cases due to the lifting of the foreign equity restrictions, there were also wholly owned subsidiaries set up to compete with the existing joint ventures. Pepsi Foods having a joint venture with Punjab Agro Industrial Corporation of India set up a 100% owned subsidiary, Pepsi Co India Holdings, virtually in the same business. (Bhandari 1996–1997.) In the context of developed countries, on the other hand, even without any regulatory restriction on foreign ownership, the MNEs may prefer to form joint ventures initially and later either set up a wholly owned subsidiary or buy-out the existing joint venture (Sinha 2006).

Dang (1977) examined 16 WOSs and 11 IJVs of U.S.-based MNCs in the Philippines and Taiwan and the relationship between ownership and performance of subsidiaries. Dang found that WOSs did not significantly differ from IJVs in terms of financial and productivity measures, and therefore that the type of ownership is not significantly related to the performance of the subsidiaries. Dang also found that WOSs and IJVs do not significantly differ in terms of managerial policies toward exports and import procurement, technology transfer, and financial policies. According to Janger (1980) a



large majority of the executives of U.S.-based MNCs have expressed highly favorable opinions about profitability of IJVs relative to WOSs.

According to Tomlinson (1970:27) the reasons for companies to choose joint venture for form of investment are an agency of a government definitely rules that a project would have to take the form of joint venture. Also the British companies entering India would have preferred to choose a fully owned subsidiary or branch office, but they did not partly because they feared that such procedure would not be permitted or discriminated. Other motives which Tomlinson (1970) lists on India are the need for local facilities and resources which are best obtained through association with a local interest, e.g. local custom and legal intricacies, influence with local authorities, capital and physical resources. Financial resources and global communications network are the two most important tangible resource seeking motives.

Banai et al. (1999: 23) have reported accessing financial resources as a key motive of IJVs in developing countries. The two most important resources relate to the skills and competence of managerial staff and best management practices. The IJV parent firms seem to believe that access to competent managerial staff and application of sound management practices are particularly relevant for IJV success in India. The resource importance pattern is consistent with the arguments of Banai et al. (1999) that IJV parents, particularly from developing countries, seek finance and managerial talent from other partners. The other important resources relate to the knowledge of international customers and supplier practices in India. This is also in line with the suggestions from the resource-based literature. Knowledge as an intangible resource is often socially embedded and therefore difficult to imitate.

Otterbeck (1981) who studied a group of six Swedish MNEs and collected data from 13 WOSs and 11 IJVs, found that IJVs show lower remittances, WOSs are more integrated into the parent's production system than IJVs, and WOSs and IJVs hardly differ at all in terms of the autonomy of subsidiaries, and that no significant differences exist between WOSs and IJVs in terms of the level of conflict in MNC-subsidiary relations. The MNE ownership in the IJV units ranged from 24% to 60%. It was also found that IJVs are significantly more leveraged, and IJVs export a higher percentage of their sales to parents and other affiliates within the parent system.

According to Lenae (1985) IJV is a more powerful vehicle of technology transfer from the host country's point of view. From the point of view of MNE rendering the

technology, however, wholly owned subsidiaries are more advantageous vehicles as WOSs prevent or slow down the leakage and diffusion of proprietary technology that are rendered to the units.

## 5.2. Control

Management of IJV from the perspective of the parent company concerns skills: diplomacy, communication, the ability to have influence on the boundaries of the firm as well as commitment and flexibility (Buckley et al., 2002). The main questions for managing of JVs are for example which is the ideal equity division that a firm should look after, whether to have a majority or minority position or do completely different levels of parent equity ownership correlate with totally different levels of profit performance (Ramaswamy & Gomes 1998). Traditionally control in IJVs has been modeled by relative degree of ownership, but new work on alliance forms, networking, relational contracting, and other organizational models suggests that ownership may not be the optimal means of control in every situation and may even be a minor issue in governance (Moen & Tallman, 1997). Because of the involvement of two or more partners from different national backgrounds, IJVs are more difficult to manage than wholly foreign owned enterprises. According to Tomlinson (1970:95) the need for control by the foreign partner of joint venture's operations varies depending on the industry and activity. The attitudes of foreign parent firms towards such control are based partly upon objective criteria, reflecting more subjectively evaluated considerations, fears and doubts.

Killing (1983) observed based on an in-depth study of 35 IJVs, that IJVs are difficult organisational form to manage well, although some IJVs seem to be easier to manage and especially in the case where one parent was willing to play a passive role. According to Killing, the more a IJV can be run as if it has only one parent, the simpler will be the management task and the performance will be better. Killing developed a typology of control including dominant parent structure, in which the IJV is managed by one of the parents as if it were a wholly owned subsidiary, shared control structure in which both parents exercise a high degree of influence on the venture's decisions and independent IJVs in which the IJV's managers are authorized to exercise full control, while neither of the parents is actively involved in the IJV's operations; and split control in which each parent plays a separate role in the IJV's management by controlling distinct functional areas. Western managers would in general not ask frequent progress report as it would be taken as a lack of trust on the employee in India.

However in India, if the managers do not follow up frequently then the task itself would be seen as an unimportant task. Gislén and Venugopal (2008) also found that western managers often focus only on managing outcome rather than behaviour, whereas Indian managers focus more on behavioural control.

The education of management in India remains mimetic compared to that of Western model. According to Iyer (1999:114), most Indian managers find it hard to translate Western principles into sound Indian practices. The struggle to internalize both Indian and Western values has produced an interesting dualism in Indian management values (Virmani, 1997). This can be result from managers who have spent their childhood in an Indian cultural context and subsequent trained Western management techniques. Because of this is not surprising to notice that both modern and traditional cultural values manifest themselves in Indian managers' talk.

Zhu, Bhat, and Nel (2005) studied the Indian management style. Many interviewed kept familiarity and the right connections as ways of furthering one's business interests as part of relationship building. They also feel the importance of professionalism and are suggesting a balancing act for Indian managers between working with aspects of the old, closed economy and a more contemporary open and competitive business environment. Many executives taking a traditional view state that levels of social hierarchy have to be respected when building relationships and those long-term relationships are seen as part of social obligations. In contrast, senior executives working for MNCs in India argue that a direct communication style is an important element of relationship dynamics, rather than the traditional, indirect style associated with many Indian family-run businesses (Zhu et al., 2005). Pearson and Chatterjee (2001:368) also claim that traditional convictions with Western cultural values in guiding Indian business sensibilities. They conclude that in a relatively short time, the fundamental attributes of a competitive market economy have subjugated societal qualities reinforced over hundreds of years in India. Together with the onset of liberalization and competition, companies in India more and more recognize the importance of professional management in the succeeding in their long term survival strategies. (Acharya 1998: 246-247.)

### 5.3. Performance of IJVs

There are many ways of measuring performance of IJVs and which performance indicators to choose. The evaluation can be the performance of the operation itself or the performance of the partners. There are many different theories which determine potentially important factors for IJV performance, according to Glaister and Buckley (1999) the fit between the partner companies and the quality of their relationship during the operation of the IJV are such factors. The evaluation can be realized using subjective or objective measures or a combination of both types of performance measures (Blanchot & Mayerhofer 1997). IJV performance is typically believed to be an outcome of the strategies implemented by managers and employees. However, performance remains an issue of importance throughout the partnering process, beginning with the strategic rationale for entering into an IJV. One of the primary questions to be answered is what constitutes an appropriate measure of IJV performance (Griffith, Cavusgil, & Xu, 2008).

Joint venture performance is evaluated by two subjective measures and two objective measures. Financial and objectives measures are from technology transfer and joint research to access to materials, new markets or scale economies. The findings of the study by Glaister and Buckley (1999) indicated that subjective measures of performance are not more significantly associated with the dimensions of management control than are the objective measures of performance. Where partners dominate or have responsibility for management control they view performance more favorably than partners that do not have dominant management control. Somewhat counter-intuitively the study finds that the nature of management control does not vary with the duration of joint ventures. First, whose perspective is used for performance measurement—that of one parent, two parents, or the JV management? Second, variations occur in performance measures which may range from financial performance indicators to subjective perceptions of performance. Third, the appropriateness of different performance measures changes as a JV matures.

Anderson (1990) noted that IJVs may be more commonly used in highly uncertain settings with a very long term performance horizon and no current performance baselines for comparison. In high risk/uncertain settings short-term financial measures would tend to indicate poor performance, although the IJVe may be making satisfactory progress towards long-term goals, or achieving current non financial goals. In this respect, it should be recognized that JVs may not be intended to fulfill standard

financial objectives such as profit generation, but are instead formed to achieve a range of objectives, for example, to enhance parent learning (Kogut, 1988b), or to improve the strategic positioning of the parent company (Contractor & Lorange, 1988) including a presence in new markets (Glaister & Buckley, 1996).

Subjective performance measures are also subject to criticism, particularly with respect to respondent bias where, for various reasons, the performance of the JV may be talked-up". Although Geringer and Hebert (1991) have demonstrated a significant correlation between objective and subjective JV performance measures, it may be argued that, despite their shortcomings, the subjective performance measures are a better reflection of underlying JV achievement than the objective performance measures discussed here. This is because, in a sense, the subjective measures are a more direct measure of performance in that the respondents should be aware of the goals of the venture and, therefore, should be able to make an assessment of the performance of the venture in light of these goals.

The performance measure Yan and Gray (1994) used was the extent to which a IJV's partners had achieved their strategic objectives in initiating the IJV. In case an objective represented a long term goal of a partner, the extent to which satisfactory progress had been made was measured. Using this measure fits well with the way that the partners actually evaluated performance. To the extent that subjective performance measures are a better reflection of the success of the venture than are objective performance measures, and assuming that the way in which the IJV has been managed affects IJV outcomes, then it would be expected that the dimensions of management control and subjective performance measures would be more strongly associated than would the dimensions of management control and objective performance measures.

Financial indicators such as profitability and stock market returns are common measures, yet they are less frequently used in scholarly research because they are often not available in public databases, especially in the case of IJVs, IJVs usually do not issue or trade stock on the market and financial measures are sometimes not applicable given the objectives of an IJV. Control from a local partners side is expected to increase the returns to the local partner as well as enable it to achieve the objectives which led it to establish an IJV, when a local partner has control on IJV, it is anticipated it to lead to the improvement of performance. There are two reasons for it when parents are involved in a collaborative competition, each of them may act opportunistically and pursue its own interest at the cost of its partner and the IJV (Yan & Luo 2001.) Foreign

partners' main motive can be entering the local market; the local partner may see the partnership a tool to enter export market. Therefore the local partner can according to Child and Faulkner (1998) protect itself against the opportunistic behaviour of its partner and plan its own IJV activities according to its own operations and strategies through the use of control. As well control can increase a partner's ability to use the IJVs commonly owned resources to achieve the objectives of its own agenda (Yan & Gray, 2001, Yan & Luo 2001, Li 2003).

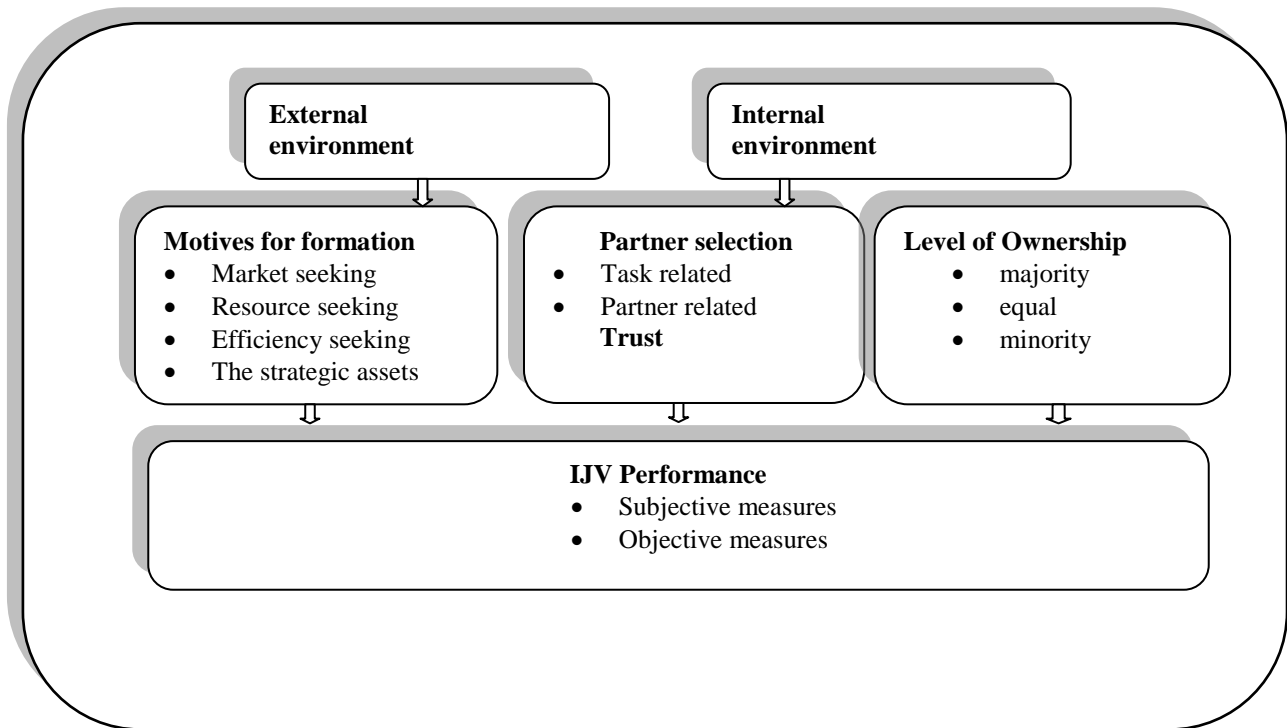
Tomlinson (1970) studied 71 IJVs in India and Pakistan with a UK partner. He found that a higher level of IJV profitability seemed to give the UK partners a more relaxed attitude towards control. According to Tomlinson (1970) there is some evidence that profitability in joint ventures inversely with the size of the foreign partner. The reason for this is partly because of the larger firms made loan to an associated joint venture, such loans that that the interest rates were limited by local taxation. The evidence from the study by Tomlinson showed that higher levels of return were obtained from joint venture investments by British firms with a more relaxed attitude towards control. This brings some doubt to the theory that control is necessary in order to improve the operational effectiveness of a joint venture, from which could be estimated to come a better profit. (Tomlinson 1970:147.) According to Sim and Ali (2000) the psychic distance (used as a measure of culture) affects IJV stability but it is not a clear determinant of IJV performance.

#### 5. 4. Summary

What comes to managing of IJV the very important factor is a degree of control. In order to succeed in management of IJV the parent company has to have special skills among them diplomacy and flexibility. An important issue for managing of JVs is which is the ideal equity division that a firm should look after, whether to have a majority of minority position or do completely different levels of parent equity ownership correlate with totally different levels of profit performance. Traditionally control in IJVs has been modeled by relative degree of ownership, but today's networking, relational contracting, and other organizational models suggests that ownership may not be the optimal means of control in every situation.

Because of the involvement of two or more partners from different national backgrounds, IJVs are more difficult to manage than wholly foreign owned enterprises. In India if the tasks are not followed up frequently then they can be seen as an

unimportant task. Westerns managers often focus only on managing outcome rather than behaviour, whereas Indian managers focus more on behavioural control. As regards the performance of IJV, the evaluation can be the performance of the operation itself or the performance of the partners. The fit between the partner companies and the quality of their relationship during the operation of the IJV are such factors. Financial indicators such as profitability and stock market returns are common measures, anyhow the statistics of these are difficult to get.



**Figure 7.** Theoretical framework of the thesis.

## 6. EMPIRICAL RESEARCH

In this chapter mainly the research methodology is presented. The research method is first described and the reason for choosing the qualitative research approach is explained, also the selection of case companies is presented. At the end of this chapter, the validity and reliability of the study are discussed.

### 6.1. Research method

The most suitable methodology for performance of this study is the qualitative approach rather than the quantitative approach. The case study method is used as a valid research tool also in international business studies and in FDIs. According to Yin (2003) the choice of suitable research method is dependent upon the research problem and the methodological fit. The case approach is suitable for this study because of its in-depth nature. The small population from which best practice cases are chosen means that it should be possible to achieve generalizability from a carefully selected matched pair of cases, and thus overcome a common criticism of case study research. As in this thesis it is question of only four companies the case study is also therefore the most suitable approach. To gain an in-depth understanding, semi-structured interviews were conducted with representatives of the parent companies.

Yin (2003) suggests four types of case study design, namely, holistic single case; embedded single case with multiple units of analysis; and multiple cases with one or multiple units of analysis. Single case study research is most suitable when the particular case is critical or unique or where the single case is the representative or typical of a large population (Yin, 2003). It is also valuable for longitudinal research, where the case is studied at different points in time. On the other hand, multiple case studies extend the scope of the investigation and the degrees of freedom, increase the potential for generalizability and provide more robust results (Eisenhardt, 1989; Miles & Huberman, 1994; Patton, 2002). The use of multiple cases will allow the researcher to search for cross-case patterns and themes to provide accurate and reliable theory and capture novel findings that may exist in the data (Eisenhardt, 1989; Miles & Huberman, 1994). This study used the multiple-case method, because it allows the possibility to compare the results between case companies.

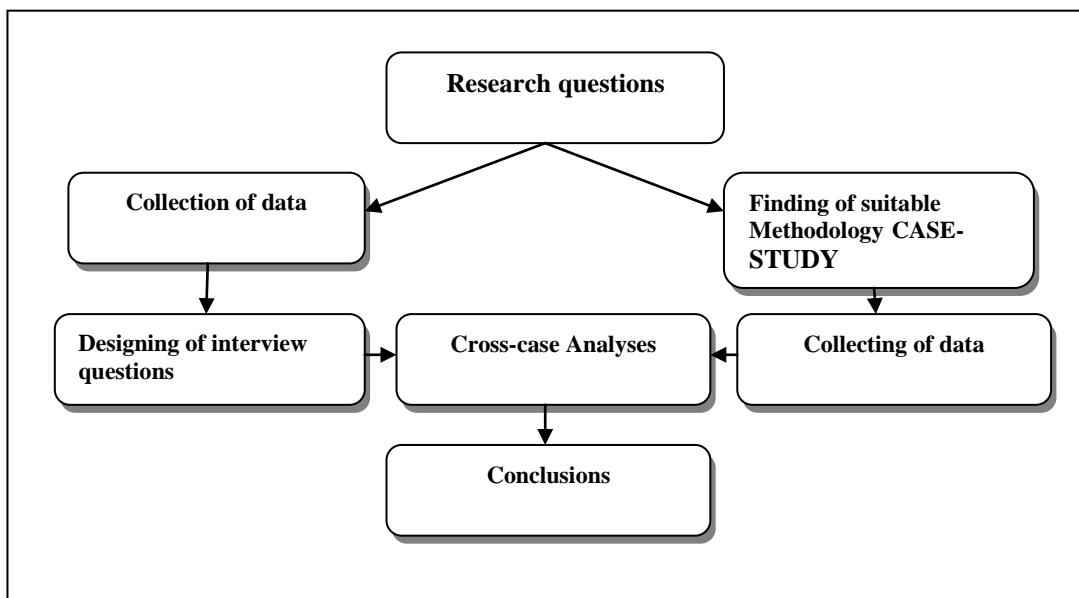


There are no precise rules as to the number of cases to be selected in multiple case study research. Miles and Huberman (1994) suggest that the number of cases selected depends upon how rich and complex the within-case sampling is. Eisenhardt (1989) suggests that four to ten cases work well; her view is that with fewer than four cases it is difficult to generate theory. In this study four cases are selected, two Finnish companies and two Swedish companies. The case companies have had or are having at the moment joint venture with an Indian partner. Data-analysis in case study research is challenging and time-consuming. A cross-case analysis will be conducted, given the range and volume of information collected. The interview data is clearly core and will likely comprise a large volume of case notes and transcriptions.

According to Yin (2003) already two cases provide the possibility of direct replication. Thus the contexts of the two cases are likely to differ to some extent; and if common conclusions can be derived, the external generalizability of the findings will be increased. Two contrasting cases may be selected if the aim is not direct replication; in this instance, if the subsequent findings support the hypothesized contrast, the results represent a strong start towards theoretical replication.

## 6.2. Research process

According to Yin (2003) there are four stages in a case-study, designing of the case-study, conducting the case study and analyzing the case study evidence and finally develop the conclusions, recommendations and implications.



**Figure 8.** Path of research process. Yin (2003).

The empirical part started by searching the case companies by contacting Exportrådet in India and Finpro in India. According to Mr. Ashish Koltewar, Finpro in India there are not so many SME-companies from Finland or Sweden that are having joint venture in India, therefore IJV is not a very common choice for companies from Finland and Sweden to enter the market. Most of the companies are on their own in the market using entry mode of branch office, liaison office or wholly owned subsidiary.

The purpose at the beginning of the study was to find companies which would be of same size, mainly sme-companies, anyhow it could be noticed how difficult it was to find a sme-company especially from Finland having IJV with an Indian partner. In addition it could be seen that the Swedish companies were more active in answering to the first inquiry. All the companies were contacted first by email and invited to participate in the study and asked for permission for an interview and in order to settle a time for the interview. Companies who showed preliminary interest in participating were then given detailed information about the project. The information from the case companies was gathered from the company home pages and of the annual reports and accounts of the firms. The questionnaire was prepared with the help from the earlier studies used at the University of Vaasa, on which the questions were to be answered using a five-point scale (1 = not at all importance, 5 = most important criteria). Usually the interviewed also told his own comments while answering to the questions, especially during the face to face interview but as well during the two telephone interviews, unfortunately the last interview was done by e-mail which did not allow the free words.

The people targeted and interviewed were people with substantial experience in managing IJV -projects. One criterion was that the interviewee should also have experience of managing IJVs and the Indian market. The researcher met personally with one of the case companies and two of the companies were interviewed by phone and one company member by-email as the respondent was staying in Dubai at the time of the interview. The respondents were asked to fill in a questionnaire and respond as well to some open-ended interview questions (Appendix 1). The use of native language of the interviewed reduced the potential for errors resulting from multiple translations of the questionnaire. The interview proceeded with specific questions on the relevance of the key issues and theories on the IJV of the firms in India. Furthermore, open-ended nature of questions within the standardized structure of interview helped this study to systematically collect useful data for the study.

The participants in the case study were those managers who directly are involved in IJVs establishment and operations. The job category of the interviewees shows that they are in management positions. For reasons of confidentiality the company and interviewees stay anonym. As the interview questions were in English, no need for two separate questionnaires (Finnish, Swedish) was required. The interviews were done in Finnish or Swedish and then again translated to English. Each personal interview lasted for approximately one hour. The interviews were tape recorded after permission from the interviewed certifying no information would be missed and enabling double checks of the answers.

### 6.3. Validity and reliability

According to Yin (2003), validity can be divided into three components: construct, internal and external validity. In the first mentioned construct validity the correct operational measures for the studied phenomena have to be established. With internal validity one establishes a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationship. External validity means establishment of domain to which a study's findings can be generalized. When a case-study is done, in order to increase the construct validity the use of multiple sources of evidence during the data collection can be employed. In this study the construct validity can be said to be high as the interviews were conducted from different persons and information with collected data was verified by cross examination. Most of these interviews were tape-recorded to avoid any loss of information and enabling double checks of the answers.

Reliability demonstrates that the operations of a study including data collection can be repeated and get the same results. To minimize the possible errors in this study the interviews were free from leading questions.

### 6.4. Finnish companies in India

At the end of 2009 about 85 Finnish companies were doing business in India. According to the Finnish export promotion association Finpro, these companies employ approximately 30,000 people and some 100 companies had entered the country by using an agent. Production has Nokia, Elcoteq, Kone, Huhtamäki, Eltel and Wärtsilä. Finnish companies have also transferred know-how and product development to India, for

example Nethawk Networks has product development unit in Bhubaneswar. Most of the Finnish companies are situated in Mumbai, Delhi, Calcutta, Bangalore and Chennai. The Finnish investing in India amounted to 330 million Euros in 2008. (Finpro 2009). For example Nokia, in the past decade has emerged as one of the most recognized brands in India. Nokia opened its tenth mobile phone factory in Chennai, Tamil Nadu in spring 2006. Nokia has a lion's share of Indian mobile phone market, and this manufacturing unit will strengthen the company's position further. Many of Nokia's subcontractors like Aspocomp and have also established their factories in Chennai. This trend is also likely to continue, and many more Finnish companies from various sectors are currently evaluating India as investment destination. Nokia has surpassed some of the most recognized business conglomerates in terms of revenues. Nokia brand has become synonymous to mobile phones in the country and Nokia considers India as one of the most important markets for its future growth. (Nokia India 2005.) According to Sitra's Environmental Programme for India, also the opportunities especially for Finnish environmental technology companies in India are enormous. (Sitra 2008). The interest for India is growing all the time among Finnish MNEs; we just wait the Finnish SMEs to follow the trend to enter the Indian market (Finpro 2010).

#### 6.4.1. Case F1

The company's core business is manufacturing of cast light metal components including related services like design of castings and tooling as well as further processing into assembly ready components. The customers are from communication networks, trucks and commercial vehicles, electronics, manufacturing as well as meditech industries. The company has production units and logistics centers in Finland, Sweden, China and Estonia. Furthermore the company has sales office in Denmark and is one of the biggest light metal foundries in Europe. The turnover is reaching to 110 M€ with a personnel of 1700 people. Globally the company is the biggest supplier of cast light metal components to the networks industry. Operations are divided into two customer business units: Communication Networks and Mechanical Engineering, Electromechanical and Truck Industries. The company began to research the possibilities to enter India in 2004. After few years of researching the market, they saw two possibilities for the company to enter India: to acquire the local casting plant or to establish a joint venture with an Indian partner. The joint venture cooperation seemed to be the most advantageous market entry strategy to enter the Indian market. The company has a 50:50 Greenfield Joint Venture with the Indian Partner which will serve

both the Communication Networks and the Mechanical Engineering units. The Joint venture with the Indian partner has approximately 500 employees.

For the interview the Sales Director was first contacted by e-mail. The interview took place face to face at the company's head office in April 2011. The company had entered the Indian market at first by establishing an own manufacturing plant in India in 2007. The company learned quite soon that they are not able to know how the institutions work and how to lobby, which an Indian partner in an IJV has a complete knowledge of. This is why the company got into contact with a potential Indian IJV-partner. Reason for closing down the manufacturing plant to search for an IJV-partner, was the local partners capability to navigate unfamiliar business practices and policies, and sometimes also to increase company's credibility in the eyes of local consumers. Also the partner's size and well-known brand in India helped the Finnish company to remove the barriers. The company's business/product similarity is totally similar with the unit's business and products. It was Finnish partner who made the first suggestion for the establishment of IJV with the Indian partner. The company had no prior relationship with the main partner prior to the IJV.

**Host country environment:** What comes to culture the Sales Director kept it very different from that of Finland, as well as the economical, political and legislative environment. The only thing the company kept very low was the competition as it was one reason to company's existence in the Indian market. Regarding which factors were important when making the decision to invest in India, the interviewed stated the most important things to be the economy and population, as India is a fast growing market and there is going to be more mobile phone users and the company is a provider of components for Communication Networks. Education level as well as the wage level received the highest points from the interviewed.

The reason why the company chose the region in India where they operate now were the regional differences on infrastructure and business culture and corruption in many other regions. The geographical location was not as important factor for the multinational company when making decisions to invest in India, the Company President is in China, Sales Director in Denmark, Economy Director in Finland and Technology Director in India. Regarding the risk the interviewed thought it to be very high in India compared to that of Finland, anyhow at the same level as in China. Concerning English language the interviewed mentioned that all Indians can English which makes it easier to operate in

India compared with China, however it takes time to learn to understand the spoken “Indian-English”.

**Motives:** The interviewed informed the main motives for their IJV in India to be earning profit and increase market share, as well as overcome local government regulation barriers, reduce capital investment and to learn and acquire from partners contribution. The less important motives which did not influence their decision were access to local management or marketing expertise and also the establishment of base to access to other countries.

**Partner selection:** Company still rely on the other partner for their contributions to the IJV, anyhow the Finnish company is doing so well in India it would not be difficult to find another partner to compensate the present partner. The interviewed also stated that their contribution to the IJV would be of great value outside the IJV if the present IJV was to fail; as the company things their activities in India are very valuable. Regarding the similarity of objectives set for the IJV, the respondent said that their objective are quite clear for both parties but not similar as the company’s goal is to get into the mobile phone networks markets in India in order to serve their global customers, whereas the partner’s goal is take advantage of the technology in their own production. There has been synergy benefit for both of the parties during the IJV. The objectives for the IJV are not in conflict between the partners and conflicts in general are not common between partners. The cooperation between partners has not been expanded to more products or markets.

**Trust:** When the interviewed was asked of trust, the mutual trust between partners was estimated to be high as well as trust has been an essential position during the existence of IJV, the amount of trust affects positively the commitment of partners and trust is based on the relationships between key people of companies. As important according to the interviewed was trust between companies in all organizational levels. The company felt that trust between partners has increased as the cooperation has proceeded; anyhow increased trust had not really diminished the need for control and monitoring, although trust between partners was kept especially important in the Indian business life. The use of expatriates and different kinds of trainings was said to affect positively. The company felt that their partner has a differing view on trust than the company. What is trust in India, wondered the respondent. The lack of trust had not encountered serious breaches during the cooperation.

**Control:** On questions relating control, the company informed that they have a great deal of control over daily activities of the IJV as well as a great deal of control over major decisions of the IJV. The company had reduced their initial dependence on the other partner since the formation of the IJV. Also the company could rely on the other partner for their contributions to the IJV.

**Performance:** The most important criteria for the company use to evaluate the performance of IJV are the level of customer service, total performance and performance compared to competitors. Total performance and performance compared to competitors were important and the received highest score in scale 1 to 5. The company is average satisfied with the level of sales, with the market share very satisfied, the financial result not satisfied, control of expenses on which the company was not so satisfied. The interviewed pointed out that it was a big surprise to notice how inaccurate the Indians could be with the control expenses. R & D activity was not so important to the company although they were satisfied with it. The other important criteria for the company were quality control (company satisfied), labour productivity (less satisfied), efficiency of marketing (satisfied). Also the company kept important the IJV image and the level of customer service which received the highest scores. The Director told that he had just been visiting the clients and heard only positive comments on these issues.

As a conclusion the interviewed pointed out that they brought the technology to the IJV and the partner help them with local government issues, also it was much easier to recruit skilled workers in the name of the Indian well known partner then it would have been by the unknown Finnish company which has unit also in China, which the interviewed said is a cape for the Indians.

The interview also included question on possible substitute from Finnish government to India activities. The company had use export guarantees from Finnfund, a Finnish development finance company that provides long-term risk capital for profitable projects in developing countries like India. They finance private projects that involve a Finnish interest. Finnfund provides investment financing in the form of minority equity investments, investment loans, mezzanine financing and a combination of these.

#### 6.4.2. Case F2

Some of company's major projects are in power plants and in boiler technology and one of Finland's top boiler designers works for this company. The company provides high quality - green energy power and boiler technology.

Whatever the customers' requirements may be, whether machine designing, equipment designing, product designing, the company can provide it. In automation projects the company works very closely to with their Automation partner. The company's goal is to provide to the customer with the software solutions: perform tasks efficiently and thereby enable the customers to increase their productivity and profitability. The company is a multi-discipline company providing a vast array of services and technical ability in the field of electrical automation. The core business includes Plant, Electrical and Software Design and important after sales services that companies rely on.

The company is able to provide customers with remote access to their plants giving them complete control using the internet as the engine for the latest software. By integrating the likes of Apple Iphone, Ipad and the latest Pda devices, customers can get real-time data from their plants.

The interview was done by-email in October 2011. The interview was done with the company's CEO. It was the company themselves who made the first suggestion for the establishment of IJV. Earlier the company had sales office in India.

The company's business/product similarity is partially similar with the unit's business and products. It was the interviewed company which made the first suggestion for the establishment of IJV with the Indian partner. The main IJV partner was a representative of the Finning case company prior to the IJV.

**Host country environment:** When asked how important the factors for their investment decision had been, the respondent answered most important to be the geographical location of India and the education level in the country, and almost as important the huge population and the energy supply. Less important the CEO kept labour movement and interest rate. What comes to culture compared to home country the interviewed saw it very different from that of Finland, as well as the economical, political and legislative environment. The interviewed thought that the risk and competition in India are high compared to that of home country. Also the bureaucracy it's big issue in India according to the CEO and there isn't anything you can do in short time, but for that it's very easy solution to let the Indians handle all those issues and to avoid getting involved into those by yourself. According to the CEO corruption gives limitation into to your business if you say no to corruption, like the case company has done. The interviewed stated that it is very difficult to get any big project if you won't be involved in corruption. In the company's daily activities there is no effect of corruption and



according to the interviewed it's possible to run your business without corruption, especially if you operate in private sector, there is no corruption.

**Motives:** The company found the establishment of base to access to other countries very important as well as achieving a rapid market entry. Nearly as important the interviewed kept the increase of market share and access to local distribution channel. Less important the interviewed kept overcoming local government regulation barriers, reduction of capital investment and learning and acquiring from partners contribution.

**Partner selection:** According to the interviewed both partners are strongly committed to IJV -operation. To the question if the both parties have similar management style/organizational culture, the answer was average. The company does not rely very much on the other partner for their contribution to the IJV, on the other hand they feel that their contribution is very valuable to the partners other business. CEO states that it would be difficult to find other partner if the present IJV would fail. The partners have experienced synergy benefit from the IJV, and the CEO feels that both partners are strongly committed to the IJV operation and they get very well along with the IJV. Conflicts between partners are not so common. Anyhow there is only average level of cooperation between the partners and it has not been expanded between partners to include more products or services. What comes to similarity of values of both partners the interviewed did not see similarity in them.

**Trust:** What comes to trust the CEO stated that there exists a complete trust between the partners, and conflicts are not so common. Mutual trust was seen necessary for the success of IJV and the company felt that trust affects positively the commitment of partners. The interviewed stated that trust is based on the relationship between key people of companies and it is not so strong in all of the organizational level. Trust has increased as the cooperation has proceeded. The interviewed also thought trust was especially important in the Indian business life and that their partner has quite the same view on trust than the company. People are very loyal for the company, they can be little slowly moving in the work but they will do long days. The interviewed has experienced work moral to be much higher in India than in Finland! According to him people appreciate they work, company and you as employer.

**Control:** Regarding control the interviewed stated that they have great deal of control, both operational and strategic control (points 5, from scale 1-5). Also the company had

significantly reduced their dependence on the other partner since the start of the IJV. According to the interviewed both partners are strongly committed to the IJV operation but the management styles/organizational cultures differ. Regarding how the interviewed finds the management of IJV in India, he pointed out how important it is to precede in India through your personal connections, it's not important what you know, and it's important whom you know in India! The CEO stated that with good people and help of internet the controlling of IJV not the problem at all.

**Performance:** The interviewed kept of average importance level of sale, financial result and all the other criteria. What comes to company's satisfaction with the performance of IJV in year 2010, the CEO informed that the level of sales and financial result of the IJV had been unsatisfied, and the market share average? Other criteria the CEO did not comment.

#### 6.5. Swedish companies in India

When it is question of outflows by main investors in India in year 2008, Sweden was in the fourth position after Germany, United Kingdom and France. (Eurostat 2010). The Swedish companies in India are mainly big manufacturing companies with approximately 20 000 people and the number of employed persons via Swedish companies in India will be increasing. This is opposite to China and Easter Europe where also sme-companies have own production. During the five recent years there has been growth in employment by Swedish companies in India, compared to the ten previous years, which is due to that the present companies have employed more people or that there has been new companies establish manufacturing units in India. The turnover of these companies has grown even quicker than the number of employed people. This is because of the increase in productivity of the companies.

The best branches identified for cooperation for the Swedish companies are IT, Telecommunications, Biotechnology, Environmental technologies and automotive industry. Trade-wise, the main Swedish exports to India are in the areas of pharmaceuticals, paper & pulp products, chemicals, engineering products and telecom equipment. As per trade data from India, bilateral trade stood at USD 2066 million in 2009-2010. India has emerged as Sweden's 19th largest export market and third largest trade partner after China and Japan in Asia. Sweden is the 12<sup>th</sup> largest FDI investor in India according to Sweden Investment Agency (SIA) figures with investments of just under USD 1 billion which does not reflect profits which have been ploughed back by Swedish MNEs. Sweden with its large number of MNEs has had a very long presence

in India. Swedish Match had established its facility as early as in 1926. Since then other Swedish companies like Ericsson, SKF, Atlas Copco, DeLaval, Volvo, ABB, Astra Zeneca, etc. have expanded their operations in India. At present there are over 106 Swedish joint ventures/ wholly owned subsidiaries in India. (India-Sweden Bilateral Relations 2010.)

#### 6.5.1. Case S1

The company was founded in 1974 and at the beginning the business was based on one product idea, the circular duct fan, which simplifies the installation of fans in ventilation systems. Production started in small scale in Skinnskatteberg. Right from the start, export sales exceeded 50 % of total sales, due to successful marketing activities in Norway. The product range was gradually expanded to include rectangular duct fans and export sales to other European markets were initiated. The company's international expansion process began by the establishment of a sales company in Finland. During the 1980s, the expansion continued with an acquisition in Denmark, later by exporting to the United States in 1981 and by opening a sales company in Norway and Australia. During 2009 and 2010 the company opened sales offices in India - in Pune, Bangalore, Kolkata and New Delhi.

The company's overall objective is to become one of the leading players in the global ventilation industry. The company's ambition is to acquire or establish at least two new sales companies each year, with the aim of own sales companies in all significant European markets. In addition, operations will be developed in selected markets in Asia and the Middle East. The company operates in 39 countries in Europe, North America, Middle East, Asia, Africa and Australia. The acquisition in India contributed 6 % points of the region's sales growth during the third quarter of 2009. New employees have been recruited chiefly in Canada, Sweden, India and Lithuania. The company's turn over amounts to 330 million €, the number of employees is 2.200.

The company has one joint venture in IT-business. In 2009, the company bought totally 100 % of the joint venture, so at the moment they are having wholly-owned subsidiary in India. The company's strategy is first to use IJV as a mode of entry to new markets, after which the company always wants to gain more than 50 % equity in IJV. The company's policy is to expand by combining organic growth and acquisitions. There are several areas which are evaluated in each acquired company: Corporate culture and fundamental values; customers and suppliers, to identify possible markets and adapt the

product range: Organization, to sharpen customer focus and streamline operations based on company's business model. A shared corporate culture and fundamental values are essential to the successful integration of the new company. The process when the company acquires another company in new market includes seminars with the key people and group-wide activities. The company's acquiring strategy entails acquiring or starting at least two companies a year, the company wants to continue to grow in India by acquiring business and /or starting the company's own operations in several other locations.

In 2009 the company acquired their Indian ventilation company, which is the leading company in India for air terminal devices and ventilation grilles. The company in India employees more than 200 people and has its head office in Noida, outside New Delhi, and another production plant in Hyrerabad. With the acquisition the company expects to expand the sales of their entire product range in the Indian market. Earlier the company had sales offices in Delhi, Bangalore, Kolkata and Pune as well as warehouse and assembly plant in Alwar. The person interviewed was the Area Manager in Export Sales Division who had been working in India for 13 years, not permanently, and is at the moment visiting India once a month.

The company's business/product similarity is totally similar with the unit's business and products. It was the interviewed company which made the first suggestion for the establishment of IJV with the Indian partner. The company had no prior relationship with the main partner prior to the IJV.

**Host country environment:** The case company finds the culture very different to that of Sweden, same relates to economic, political and legislative environment. The interviewed mentioned the Indian payment culture, if you are not pushing the Indian clients to pay, they are not paying. Risk compared to home country is not so big according to the interviewed. As for the importance of factors affecting the company's investment decision, the interviewed kept the following factors important: population, income level and the wage level in India. The interviewed also pointed out how much time goes in discussions, you have to be sure that you have agreed on every details before you send the invoice and the Indians keep on asking for the discounts. The Area Manger never participates in price discussions by himself, it is done by the locals, as local people know how to behave, know when to say no and when to shout. Let the locals do the business that is important, states the Area Manager. He also mentioned that in India, there is a good number of people who are forced to educate in order to

get a good job position. The company had had some problem in recruiting skilled and educated people, as more skilled persons are getting into the IT-business to earn more money. Wages are getting higher all the time just like in China, 10-20 % a year stated the Area Manager, and continues that their strategy is to compete with high salary but with job satisfaction. As regards the political climate, the interviewed informed that the party in power at the moment, quite acceptable, lot of talking, pocket money, no willingness to pay taxes, money goes to private pockets. It is utmost to know according to the Area Manager to which region one invests not to Kolkata informed the interview.

**Motives:** Regarding the company's motives for IJV, the Area Manager mentioned earning profit, increase market share, overcome local government regulation barriers and access to other countries as well as access to local marketing expertise, local management expertise and access to local distribution channel to be important. The very important purpose in IJV was according to the Area Manager to achieve rapid market entry and to achieve economies of scale. Development of base for low-cost sourcing the Area Manager kept average important and development of new product or technology not important.

**Partner criteria:** Company has significantly reduced their initial dependence on the other partner since the formation of the IJV and the case company partly agrees still to rely on the other partner for their contributions to the IJV. To the statement if the company can easily find another partner the interviewed partly agreed, same relates to complete trust between partners. The interviewed stated that the objectives set for the IJV are not similar between the case company and its partner; anyhow they are not in conflict neither.

**Trust:** The interviewed revealed that there is no complete trust, only average between the Indian partner and the case company, as an example, the Area Manager tells how he advises the partner company to get all the appointments ready for him when he is visiting the factory in India, but nothing happens, if the Area Manager does not take care of the timetable and bookings himself. The Area Manager could not say that they had complete trust towards their IJV partner, the trust between them could be described as average.

**Control:** The case company indicated that they have a great deal of operational control over daily activities as well as strategic control. In the beginning of IJV, the Indian managing director did not like the Swedish manager to talk to company's personnel,

only he himself was entitled to discuss with them. However for the partner it is important to learn what is happening inside the Indian company. Therefore it seems to be easier to manage IJV in case you have a local person as a Managing Director. According to the Area Manager it is always best to change Managing Director when you enter into an IJV. Otherwise you cannot change the strategy due to the fact that the former Managing Director can be reluctant to give away information which causes conflicts between partners. The company wants to implement the company's values in all their subsidiaries and IJVs no matter which country they are located in. You really need to know how to treat the people, you need to have some pressure and ask after some time whether the work has been done.

In IJV there had been conflicts and challenges reports the Area Manager: one man show meaning one decision. Nowadays the company allows a person to make decisions themselves which is not easy for the Indian employee to understand that he or she shall have to be proactive. Today the company is taking care of the education of the local people and implements the culture and the management style. The Area manger feel that in India it is more important the number of years that you have been in the company than the knowledge you have got due to education.

**Performance:** The interviewed stated that the most important criteria they use to evaluate performance in IJV, are level of sales which the company is average satisfied, control of expenses/total costs on which the company is very satisfied, efficiency of marketing which the interviewed was satisfied, the level of customer service on which the Sales Manager was satisfied. The performance compared to competitors was very important and the case company is satisfied with it. For the company the brand building is very important also criteria to evaluate performance.

#### 6.5.2. Case S2

The company is a leading manufacturer of turned parts to demanding customers in several different industrial segments in Sweden. The company is characterized by turning traditions since 1943 and it operates in an international market. Company's strengths are manufacturing parts according to the customers own drawings. The vision is to serve a long-term partnership with the customers who require specialist expertise. The company is used to working on projects at the early stages of design right through to the final application. The company supplies to a wide range of customers from leading global brands, to small family businesses. The manufacture includes both

standards and special products in two modern production plants. Both plants have a high capacity and are well equipped for the accurate precision required for manufacturing high quality stainless steel and acid proof fasteners. Today the company employs about 850 employees in more than 30 companies. Each employer for the company is a part of the team and every single individual is playing its part to reach the company's vision of being recognized as the world's leading supplier of fasteners and small parts. Approximately 15% of company's turnover relates to the automotive industry. Years of continuous improvements has ensured the company to develop a comprehensive supplier network. The company is capable of meeting the tough quality demands from the automotive industry and also familiar with quality procedures. Same relates to furniture industry.

Sustainability, economical use of natural resources and far-reaching accountability for the environment are the guiding principles of company's environment policy, which permeates the company's entire business. It strives to exploit raw materials and energy as effectively as possible and to minimize the need for hazardous substances and chemicals. The focus of the company is that the products should be composed of recyclable material, free from harmful additives or alloys. In order to be able to live up to these goals, the company carries on a continual dialogue with its customers and suppliers. The company is convinced that proactive commitment to the environment increases the power of our attraction as a supplier, while it simultaneously improves the cost efficiency and competitiveness, which is considered it a priority that the suppliers do everything in their power to achieve environmentally compatible production.

The production methods include machining, cold forming and hot forging – with a flexibility that allows a wide range of products with different quality and dimensional requirements. They are used to working as a solution provider together with the customer's construction and R&D departments. This means assessment in the design phase of a product advising on the performance, feasibility and cost effectiveness. The company's presence e.g. in India and the Asian market gives the company the opportunity to inspect quality and packing on the manufacturer's premises prior to delivery. Asian units are part of the company's global network and offer the same support and service as all our other offices.

The Asia units can now supply companies in China with domestic manufactured products and also imported products. Domestic manufacturing companies can also

benefit from logistical solutions as the company is a significant player as a supplier to the telecom industry.

The Sales Director of the company in Sweden was interviewed by phone. The joint venture was established in 2008 and the question was of a Greenfield investment. The company had over five years experience in international joint ventures at the time of establishment of IJV. Before entering the IJV in India the company had exported to and imported from India. The company's products are totally similar to those of the partner's. The suggestion for establishment of IJV came from a third party, a Swedish one. It was the interviewed company which made the first suggestion for the establishment of IJV with the Indian partner.

**Host country environment:** Regarding the general environment in India, the company kept the following factors important for their investment decision: geographical location, raw material resources, transportation (for company's activities logistics is very important factor), economy and infrastructure. Almost as important were the following factors: business culture and consumer behaviour. Less important were climate, income, education and wage level and unemployment rate. Labour movement, Interest rate and Inflation rate and Energy supply received average points from the Sales Director. The interviewed kept the risk very high and the competition in India average and the economical political and legislative environment very different from their home country. When asked about the Indian culture compared to home country the Sales Director kept the Indians totally different he pointed out the difference on time, in the Nordic countries when you agree on time for negotiation, you keep it, but in India not. The interviewed also thought that India presented a very high risk. Competition compared to home country was average, economical, political and legislative environment very different. It was of the initial of the company itself who made the first suggestion for the establishment of IJV. What comes to bureaucracy and corruption, the Sales Director indicated that you can manage with those obstacles as in every emerging market you face the same phenomena. The company has no thread for copying, due to their product sector.

**Motives:** As the main motive for IJV the Sales Director mentioned development of base for low-cost sourcing as well as access to local marketing expertise and to local distribution channel. To overcome local government regulation barriers, Learning and acquiring from partners contribution and to achieve rapid market entry were all important and received 4 points from the respondent. Earning profit, increase market



share and access to local management expertise received average points from the Sales Director. Less important were establishment of a base to access to other countries, development of a new product or technology or reduction of capital investment.

**Trust** What comes to trust, the interviewed agreed that mutual trust between partners is necessary for the success of IJV and that trust has been in an essential position during the existence of the IJV. The trust is not based only on key people of the companies but in all organizational level. According to the Sales Director trust between partners had increased as the cooperation has proceeded. Anyhow increased trust has not diminished the need for control and monitoring.

**Control:** As regards control, the Sales Director stated that they have a great deal of control over daily activities as well as over major decisions of the IJV. The company has reduced the initial dependence on the other partner since the establishment of the IJV and it can be stated that there exists a complete trust between the partners. According to the Sales Director, conflicts between partners are not common and both partners are quite committed to the IJV operation. Partners can also be said to have similar management styles/organizational cultures. What comes to work morale, the interviewed informed that it is better in Nordic countries compared to India and it takes a lot of time and patience to get the Indians to follow the Nordic management style.

**Partner relationship:** According to the Sales Director the objectives set for the IJV are similar between the company and their partner and through the JV; the partners have experienced synergy benefit which both got five points. Partners do not get along very well in the JV and the cooperation has not been expanded between partners to cover more products and/or markets. The Sales Director evaluated these two propositions with 4 points, Therefore also conflicts between partners are common and got 2 points. The company had no other relationship with the main partner prior to IJV.

**Performance:** Regarding the performance of the IJV the Sales Director informed that they are not so satisfied with the level of sales; anyhow they are very satisfied with the financial result of the IJV. Also according to him total performance of the IJV was average, although on performance compared to competitors he was satisfied. Sales Director informed that the company first wants to get good position in the country and after five years starts to expect satisfying financial result. When comparing the competitive positioning of the company and the IJV partners, the Sales Director felt they were strong in following government requirements as well as the IJV-partner.

## 6.6. Cross-referencing

This section presents cross-case analyses of cases F1, F2, S1 and S2 conducted at the beginning of this chapter.

**Table 6.** Key figures and information of the case companies.

Case	Case F1	Case F2	Case S1	Case S2
<b>Business sector</b>	Cast light metal components	Electrical automation	Ventilation industry	Fastener/small parts supplier
<b>Turn over</b>	110 million €	300 000 €	3,47 billion SEK	210 million €
<b>Personnel</b>	1700	100	2800	650
<b>Years in India</b>	3 years	2 years	3 years	3 years
<b>FDI Form</b>	Joint venture greenfield 50:50	Joint venture, 40:60	First IJV, now WOS	First IJV, now WOS
<b>Company's experience in IJV at the beginning of IJV</b>	None	1 – 5 years	More than 5 years	More than 5 years
<b>Company's earlier operation in India prior to IJV</b>	WOS manufacturing unit	Sales office	Sales office	Export Import
<b>Company's business/product similarity with those of the unit's</b>	Totally similar	Totally different	Totally similar	Totally similar

Table no. 6 indicates the basic information on the case companies. All of them are operating in the metal industry. Cases F1, S1 and S2 are big companies, only F1 can be categorized as a small and medium sized company. All companies have been staying in India for quite a short period of time, from 2 to 3 years. Cases F1 and F2 have joint venture (50:40 and 40:60), and cases S1 and S2 have started as IJV, but have become a wholly-owned subsidiary of the Swedish partner. Case F1 had a manufacturing unit in India, but it was closed down and they searched for an IJV-partner. The strategy for case S1 is first to use IJV as an entry mode to new markets, but finally the company always wants to get more than 50 % equity of IJV. What comes to case companies experience in IJV prior to it, case F1 did not have any experience; case F2 has been working with IJVs from 1-5 years and S1 and S2 more than 5 years. Two case companies F2 and S1 had sales office in India, case F1 a manufacturing unit and case

F2 had been exporting components to India as well as imported raw material from India to Sweden. In three cases, F1, S1 and S2 the company's business or products are totally similar with those of the units, in case F2 they are totally different.

**Table 7.** General environment in India determining the IJV decisions of case companies.

Criteria	Case F1	Case F2	Case S1	Case S2
Geographical location	1	5	2	5
Climate	2	2	2	1
Raw material resources	2	2	3	5
Energy supply	1	4	2	3
Transportation	2	2	2	5
Economy	4	3	2	5
Population	4	4	4	3
Income level	2	3	4	2
Consumer behaviour	1	2	2	4
Education level	4	5	3	2
Wage level	4	3	4	2
Unemployment rate	2	2	3	2
Business culture	3	3	3	4
Infrastructure	4	4	2	5
Labour movement	1	1	2	1
Interest rate	2	1	2	1
Inflation rate	1	2	2	1

Scale 1 = not important, 5 = very important

Table 7 shows the results on how host country determinants have affected case companies IJV decisions. The case companies kept different criteria important for their decisions on IJV, only case S2 thought that raw material resources have influenced their IJV decision. The geographical location was very important for case F2 and case S2. For Case F1 it was not at all important. According to case F1 the most important things had been the economy and population, as India is a fast growing market and as well huge consumer market. Transportation was evaluated as very important for case S2 because the entire business idea is based on logistics. Labour movement, interest rate and inflation rate were seen of all case companies as not important.

**Table 8:** Host country environment.

Criteria	Case F1	Case F2	Case S1	Case S2
Culture compared to home country	2	1	1	1
Risk	2	2	1	1
Competition	4	2	2	3
Economical	2	2	2	2
Political	2	1	2	2
Legislative	2	1	1	2

Scale 1 = very different, 5 = very similar

As can be seen from the table 8 regarding host country environment, all case companies kept culture very different or different compared to that of home country. The culture is seen everywhere, for example case S1 told that payments of invoices differs a lot from the Nordic countries, the Indians do not pay in case you are not pushing them. Cases F1 and F2 did not keep the risk as high as cases S1 and S2. Competition was kept high by case F1 and average by case S2, which depends on the company's products. All companies kept the economic, political and legislative environment very different or different compared to home country.

**Table 9.** Motives for establishment of IJV.

Criteria	Case F1	Case F2	Case S1	Case S2
Earning profit	4	3	4	3
Increase market share	4	4	4	3
Develop base for low-cost sourcing	2	3	3	4
Establish a base to access to other countries	1	5	4	2
Access to local marketing expertise	1	2	4	4
Access to local management expertise	1	3	4	3
Access to local distribution channel	3	4	4	4
Develop a new product or technology	2	3	2	1
Achieve economies of scale	4	3	5	3
Achieve rapid market entry	3	5	5	4
Overcome local government regulation barriers	4	2	4	4
Reduce capital investment	4	2	3	1
Learn and acquire from partners contribution	4	2	4	4

Scale: 1=not at all important, 5 = very important

Which are the main motives for case companies for establishment of IJV, table 9 indicates that there is quite a lot of variation between the criteria which the companies find important. Achieve rapid market entry and increase of market share and learning and acquiring from partners contribution are those criteria which nearly every case company had chosen as important or very important. Access to local distribution channel was as well kept as important for nearly all of the case companies.

**Table 10.** Relationship between partners.

Statement	Case F1	Case F2	Case S1	Case S2
We have significantly reduced our initial dependence the other partner since the formation of the IJV	3	2	4	5
We still rely on the other partner for their contributions to the IJV	4	4	3	4
We can easily find another partner if the IJV would be terminated	2	5	3	3
Our contribution to the IJV is very valuable to our IJV partner's other business	3	1	2	2
Our investment (physical or human) in the IJV would be of little value outside the IJV if the IJV were to fail	4	5	2	2
Continued success of the IJV depends on periodical renewal of our contribution to it	3	3	3	2
It is easy for us to transfer the investment in the IJV to other places	4	4	4	4
The assets of your company and your IJVpartner strongly complement each other	2	3	4	5
The resource need of your company is of similar size compared to the partner	4	4	4	3
The objectives set for the IJV are similar between you and your partner	3	3	3	3
Through the IJV, the partners have experienced synergy benefit	2	2	4	5
The objectives set for the JV are in conflict between you and your partner	4	3	3	4
Both partners are strongly committed to the IJV operation	2	2	4	2
Partners have similar management styles /organizational cultures	4	2	2	1
Partners get along very well in the IJV	2	2	2	1
Conflicts between partners are quite common	4	4	4	2
There is a high level of cooperation between the IJV partners	3	3	2	4
The cooperation has been expanded between partners to cover more products and/or markets	5	2	2	5
The value of your company are similar to the values of your IJV partner	3	4	3	2

Scale: 1 = agree, 5 = disagree

Regarding the relationship with the main partners case F1 did not have any relationship with the partner prior to the IJV, and nor did case S2. For case F1 their partner had been a representative of company's products in India.

Table 10 indicates that cases S1 and S2 have not significantly reduced their initial dependence the other partner since the formation of the IJV, because the case companies have become wholly-owned subsidiaries of their Swedish partner. Nearly all case companies stated that they only partly rely on the other partner for their contributions to the IJV. Case F1 still rely on the other partner for their contributions to the IJV, anyhow the Finnish company is doing so well in India it would not be difficult to find another partner to compensate the present partner. All case companies thought it is not easy to for them to transfer the investment in the IJV to other places, because of the regional differences in infrastructure and business culture and corruption in India. To the statement if the objectives set for the IJV are similar between the partner, all the case companies were homogenous to think this as average. Cases F1, F2 and S1 informed that both partners are strongly committed to the IJV operation, only S2 informed they are not. Partners get along very well in the IJV answered all cases, no severe conflicts had occurred.

**Table 11.** Trust in IJV.

Statement	Case F1	Case F2	Case S1	Case S2
a) Mutual trust between partners is necessary for the success of IJV	5	4	4	4
b) Trust has been an essential position during the existence of IJV	5	4	4	4
c) The amount of trust affects positively the commitment of partners	5	4	4	5
d) Trust is based on the relationships between key people of companies	5	5	5	3
e) Trust between companies is strong in all of the organizational level	4	3	2	5
f) Trust between partners has increased as the cooperation has proceeded	4	4	4	5
g) Increased trust has diminished the need for control and monitoring	3	4	2	3
h) Trust between partners is especially important in the Indian business life	4	5	5	5
i) The use of expatriates and different kinds of trainings affect positively	4	4	4	5
j) Our partner has a differing view of trust than we	2	3	4	1
k) Trust between partners has encountered serious breaches during the corporation	1	3	1	1
l) There exists a complete trust between the partners	4	3	3	4

Scale: 1 = disagree 5 = agree

Considering the statement of existence of complete trust between the partners the case F1 and S2 agreed and case F2 and S1 only partly agree. Case F1 wondered what

complete trust is when it is question of India. All case companies agreed that mutual trust has been important for the success of IJV and that the amount of trust affects positively the commitment of partners. All companies agreed that trust between partners is especially important in the Indian business life. The companies agreed that trust is based on the relationships between key people of companies and not so much in all of the organizational level. Also all case companies agreed that trust between partners has increased as the cooperation has proceeded, however it had not diminished the need for control and monitoring. The cases agreed on the statement that the use of expatriates and different kinds of trainings affect positively, case F1 is not having expatriates permanently in India.

**Table 12.** Control in IJV.

Statement	Case F1	Case F2	Case S1	Case S2
A great deal of operational control	4	5	4	4
A great deal of strategic control	5	5	4	5
Complete trust between partners	3	5	2	5
We have significantly reduced our initial dependence on the other partner since the establishment of IJV	4	5	4	4
Conflicts between partners are common	2	2	4	2
Both partners strongly are committed to IJV	4	4	3	3
Partners have similar management styles	3	3	4	4

Scale 1 = disagree, 5 = agree

Regarding control (table 12), all case companies informed to have a great deal of control both operational and strategic control, despite of the fact that in two of the cases there exists a complete trust between partners. All the case companies had significantly reduced their initial dependence on the other partner since the establishment of IJV. Cases all have dominant control at the current phase that is easy to understand with case S1 and S2, because the IJV has become its wholly-owned subsidiary. Partners have similar management styles in the case of S1 and S2 but quite different when it is question of cases F1 and F2.

What comes to management of IJV in India, Case F2 pointed out how important it is to precede in India trough your personal connections, it is not important what you know, and it's important whom you know in India. According to case F2 with the help of good people and help of internet the controlling of IJV not the problem at all. Case S1 pointed

out that better to require a new local Managing Director outside the partner company; otherwise you cannot change the strategy, because the present Managing Director is perhaps hiding information which can lead to conflicts.

Cases F1 and S2 both emphasized that nowadays they allow the Indian personnel to make decisions themselves which is not easy for the Indian employee to understand that he or she shall have to be proactive. Case F1 informed that at the lower level one nearly fears of making decisions, as the organizational culture in India is still very hierarchical. When comparing the management styles of Indians and Finns, when it is a question of conflicts Finns can make quick decisions and also proceed with it. Indians just assume that the things will be handled, anyhow nothing happens.

Case S1 is taking care of the education of the local people and implements the culture and the management style, case F1 stated that they have two or three technicians permanently taking care of education of personnel in India.

**Table 13.** Satisfaction on IJV Performance.

Criteria	CaseF1	CaseF2	CaseS1	Case2
a) Level of sales	3	3	2	3
b) Market share	4	2	2	4
c) Financial result	2	2	2	5
d) Control of expenses/total costs	3	3	3	5
e) R & D activity	4	3	1	4
f) Quality control/quality objectives	4	3	3	3
g) Labour productivity	2	3	3	3
h) Efficiency of marketing	4	3	3	4
i) Efficiency of distribution	4	3	3	2
j) JV image	5	3	5	3
k) Level of customer service	5	3	1	4
l) Total performance	3	3	3	3
m) Performance compared to competitors	4	3	1	4

Scale: 1 = very unsatisfied 5 = very satisfied

Concerning the evaluation of performance in IJV, three case companies F1 and S1 and S2 kept the level of sales as an important criterion, case F2 kept it average important. All the companies were unsatisfied or partly satisfied with the level of sales of their IJV. That is natural if you think of the short time of companies operating in India. Market share was evaluated as not important by cases F2 and S2, and as important by F1 and very important by S2. Cases F1 and S2 were satisfied with their market share, whereas case S1 was partly satisfied and case S1 unsatisfied. Regarding financial result cases F1, F2 and S1 evaluated it as unsatisfied, only case S2 informed to be satisfied with the



financial result. The total performance received average points from all the case companies and as regards the performance compared to competitor's cases F1 and S2 were satisfied whereas F2 was not complete satisfied and case S1 was very unsatisfied.

Concerning control of expenses and total costs, cases F1 and F2 and S1 were partly satisfied, case F1, informed that it was very surprising for them how inaccurate the Indian business culture is relating to expenses and costs. Case S1 also pointed out of the need of pushing for getting the payment done by Indians. Case F1 was very satisfied with the level of customer service; they had recently received good feedback from their customers on this. Also S2 was satisfied with the good feedback from their customers. Very unsatisfied with the same criteria was case S1. Concerning labour productivity all case companies evaluated it as average, case F1 as unsatisfied.

The overall findings are presented in the table (see Table 14.)

**Table 14.** The overall findings of case companies.

	Case F1	Case F2	Case S1	Case S2
<b>Business environment</b>	Economic, political, cultural environment differ a lot, competition low. Regional differences in the country effected the location of the IJV.	Economic, political, cultural environment differ a lot, corruption especially in official sector. Bureaucracy, longer time for handling things.	Economic, political and cultural environment differ a lot also payment culture. Best to let the locals do the business. Wages getting higher, educated workers difficult to recruit.	Economic, political and cultural environment differ a lot. English speaking population an advantage.
<b>Motives</b>	Earning of profit and increase market share.	Access to other countries and achieving a rapid market entry.	Achieve rapid market entry and economies of scale.	Base for low cost sourcing, access to local marketing and expertise, access to local distribution channel.
<b>Partner selection</b>	Still rely on the partner, objectives clear for both parties, but not similar.	Both parties strongly committed to IJV	Significantly reduced their initial dependence on the other partner since the beginning of the IJV	IJV similar between the company and their partner, partners have experienced synergy benefit.
<b>Trust</b>	Among key people within the companies.	Among key people, trust increased with the proceeding of IJV.	Moderate trust between partners.	Increased trust has not diminished the need for control and monitoring.
<b>Ownership</b>	Joint venture greenfield 50:50	Joint venture, 40:60	First IJV, now WOS	First IJV, now WOS
<b>Control</b>	Great deal of control over daily activities and major decisions.	Great deal of operational and strategic control.	Great deal of operational and strategic control.	Great deal of control over daily activities and major decisions.
<b>Management</b>	The use of expatriates and different kinds of trainings was said to affect positively.	Work moral higher than in Finland. Employees loyal to the company.	Local person as a managing director essential. Common managing style in IJVs and WOSs all over the world.	Work morale low in India compared with Nordic countries
<b>Performance</b>	Market share very satisfied, financial result or control of expenses not satisfied. Inaccurate controlling of costs. Very satisfied with the level of customer service.	Level of sales and financial result unsatisfied.	Level of sales, average satisfied, performance compared to competitors satisfied.	Level of sales not satisfied, policy to first settle down in the target country and wait for at least five years for financial results

## 7. SUMMARY AND CONCLUSIONS

### 7.1. Summary and conclusions of the study

The most popular strategies companies use when they internationalize are exporting, licensing, strategic alliances and foreign direct investment (FDI). India is a market with rapidly growth and with enormous possibilities for international companies as well for the companies from Nordic countries. On the other hand, also the Nordic companies hesitate to enter the market due to its obstacles like bureaucracy and corruption.

The aim of this study was to discuss the economic, political and cultural environment of India and FDI policy, and by performing an empirical study discuss the motives for entering into IJV, the criteria for finding a partner and whether ownership, control and trust have effects on the performance of Finnish and Swedish IJVs with Indian partners. As well the purpose was to compare whether there are similarities or differences between Finnish and Swedish companies related to these strategies.

The FDI subject has attracted many researches during several decades, and the subject has been studied from many different points of views. The best known and most used theory of investments is by John Dunning (1997, 1998), the so called eclectic paradigm. The OLI-paradigm offers a good framework for understanding why FDI flows occur. The eclectic paradigm predicts that companies invest abroad when they get firm-specific advantages. These firm-specific advantages are discussed in this thesis.

The empirical part of this thesis was conducted by using qualitative multiple-case study as a research strategy in order to produce deep descriptions of factors affecting IJV formation with selected two Finnish and two Swedish companies, three of the case companies are big companies and one company belongs to small and medium sized companies.

All the case companies are operating in the metal industry. Cases F1, S1 and S2 are big companies, only F1 is categorized as a small and medium sized company. All case companies have been operating in India for quite a short period of time, from two to three years. Regarding ownership Cases F1 and F2 have joint venture (Case F1 50:50 and Case F2 40:60), and cases S1 and S2 have started their operating in India using IJV as entry mode, but both companies have become wholly-owned subsidiaries of their Swedish partner. Case F1 started its operation in India with own manufacturing plant,

but it was closed down and after that the company searched for an IJV-partner. It was Dunning who wrote that without a company being familiarize with local language, business customs, legal requirements and marketing procedures, foreign producers' might find themselves weak compared with the local companies. This was the case with F1.

The strategy for case S1 was first to use IJV as an entry mode to new markets, but finally the company always wants to get more than 50 % equity in IJVs. What comes to case companies experience in IJVs prior to it, case F1 did not have any experience; case F2 has been working with IJVs from 1-5 years and S1 and S2 more than 5 years. Case companies F2 and S1 had sales office in India, case F1 own manufacturing plant and case F2 had been exporting components to India as well as importing raw materials from India. All the case companies have been operating in India for are quite a short time, from two to three years; therefore it was quite difficult for them to comment on the performance of their IJVs.

Anderson (1990) noted that IJVs may be more commonly used in highly uncertain settings with a very long term performance horizon and no current performance baselines for comparison. In high risk/uncertain settings short-term financial measures would tend to indicate poor performance, although the venture may be making satisfactory progress towards long-term goals, or achieving current non-financial goals. In this respect, it should be recognized that JVs may not be intended to fullfil standard financial objectives such as profit generation, but are instead formed to achieve a range of objectives, for example, to enhance parent learning. Eventually this is the reason why all case companies informed that they are not satisfied with the financial results if the IJVs.

All case companies kept culture very different compared to that of Finland and Sweden. According to the case companies, the culture is seen everywhere, for example in paying of invoices, the Indians do not pay in case you are not pushing them. When it is question of a very difficult negotiation, negative things are presented quite clearly and the actual decision makers can stay out of the meeting on purpose. One of the true implications of this culture is that the western manager may find it difficult to fully comprehend the behavior of his Indian counterpart. There are regional differences in different areas in India relating to administration and corruption stated one case company. As it was earlier stated this has caused the widening of the gap between the very richest and poorest states. The four high-growth states have created a virtuous

circle where their growth attracts considerable investments, both domestic and foreign, fuelling further growth.

What comes to conflicts in Indian business, according to the case companies it is difficult to notice conflicts in India; anyhow you can sense them for example during a negotiation, when everything goes slowly or suddenly there is a long-lasting pause. The Indians are very polite although things would not go as they wished.

Case F2 pointed out that bureaucracy is big issue in India and there isn't anything you can do in short time, but it is best to let the Indians handle all those issues and to avoid getting involved into those by yourself. Moreover corruption gives limitation into to your business if you say no to corruption, like the case company has done. The interviewed stated that it is very difficult to get any big project if you are not involved in corruption. In the company's daily activities there is no effect of corruption and according to the case company it's possible to run your business without corruption. When you operate in private sector in India, there is no corruption

Cases F1 and F2 did not keep the risk compared to the home country as high as cases S1 and S2. Competition was kept high by case F1 and average by case S2, which depends on the company's products. All of the companies kept the economic, political and legislative environment very different or different compared to that of their home country.

The case companies kept different criteria important for their decisions on IJV, only one case company (case S2) thought that raw material resources have influenced their IJV decision. This was surprising because when you are in the manufacturing business and in need of raw materials. One could think it would have been a motive to enter India for all case companies. The geographical location was very important for case F2 and S2. For Case F1 it was not at all important, because all the company's key persons are in different countries. According to case F1 the most important things were the economy and population, as India is a fast growing market and as well a huge consumer market. Transportation is very important for case S2 because the whole business idea of the company is partly based on logistics. Labour movement, Interest rate and inflation rate were seen of all case companies as not important.

Considering main motives for case companies for establishment of IJV, it could be seen that there is quite a lot of variation between the criteria between the case companies. To

achieve rapid market entry and increase of market share and learning and acquiring from partners contribution are those criteria which nearly every case company had chosen as important or very important. Access to local distribution channel was as well kept as important by nearly every case company. Case F1 indicated the same motives as Thomlinson listed on India, the need for local facilities and resources which are best obtained through association with a local interest, e.g. local custom and legal intricacies, influence with local authorities, capital and physical resources. This was described in theory as important motives towards IJV. The resource importance pattern is consistent with the arguments of Banai et al. (1999) that IJV parents, particularly from developing countries, seek finance and managerial talent from other partners, however case companies informed that the Indian partner is mostly seeking technical knowledge from them.

Concerning the relationship with the main partners, case F1 did not have any relationship with the partner prior to the IJV, and nor did case S2. For case F1 their partner had been a representative of company's products in India. The cases S1 and S2 have not significantly reduced their initial dependence the other partner since the formation of the IJV, this is because the case companies have become the wholly-owned subsidiary after operating as IJV. The other two case companies had both reduced their dependence. As earlier in this study was discussed normally the efficiency seekers will be experienced, large and diversified companies which produce quite standardized products and used internationally accepted production processes. Case S2 can be categorized as an efficiency seeker.

Nearly all the case companies disagree regarding relying on the other partner for their contributions to the IJV, only case S2 agreed partly to rely on the other partner. Case F1 company stated that it doing so well in India it would not be difficult to find another partner to compensate the present partner. All the case companies thought it is not easy to for them to transfer the investment in the IJV to other places, because of the regional differences regarding the infrastructure and business culture and corruption in India. To the statement if the objectives set for the IJV are similar between you and your partner, all the case companies answered that they are nearly similar. Cases F1, F2 and S1 informed that both partners are strongly committed to the IJV-operation, only S2 informed they are not strongly committed to the IJV operation. Partners get along very well in the IJV, stated all cases, no severe conflicts had occurred.

Considering the statement of existence of complete trust between the partners F1 and S2 agreed and case F2 and S1 only partly agreed. Case F1 wondered what complete trust is when it is question of India. All the case companies agreed that mutual trust has been important for the success of IJV and that the amount of trust affects positively the commitment of partners. All companies agreed that trust between partners is especially important in the Indian business life. The companies agreed that trust is based on the relationships between key people of companies and not so much in all of the organizational level. Also all case companies agreed that trust between partners has increased as the cooperation has proceeded, however it had not diminished the need for control and monitoring. The cases agreed on the statement that the use of expatriates and different kinds of trainings affect positively, case F1 is not having expatriates permanently in India.

Considering management, case S1 kept it important that when establishing IJV you should always recruit a new managing director to the IJV and due to the fact that the former Managing Director can be reluctant to give away information and does not share the same thinking with the new partner and that can cause conflicts between partners. The case company nowadays always wants their partner to implement the values and attitudes in all their subsidiaries and joint ventures no matter which country they are situated.

As what comes to performance the case companies informed that in order to be satisfied with the performance of the IJV, you have to get the trustable local people to work hard for you and to believe that they do the right things right. In case you cannot trust your employee's things can get stacked and nothing works as planned. The way of doing business in India is difficult; the Indians are keen on negotiations and can start a new negotiation on some points, which were already agreed on wanting to change the agreement.

The bigger companies which have already positioned their brand e.g. Nokia, SKF, may prefer to form joint ventures initially and later either set up a wholly owned subsidiary or buy-out the existing joint venture. Especially when it is question of a small and medium sized company, it is more efficient to enter the foreign unknown market by joint venture, as joint venture allows the foreign company to learn from their partner how business is handled on the new target market. For those companies interested in investing India, the critical task is to identify the opportunity and timing for one's entry into the market to gain advantage.

The study found no significant differences between Finnish and Swedish case companies, Swedish companies had established IJV but later replaced it with wholly-owned subsidiary. The western companies like companies in Finland and Sweden need new markets and new customers therefore emerging markets like India are becoming more and more important. One can say that to invest in Indian company is no different to investing in companies in any other country. However it is important for any investor to know its partner and the company one invests in.

## 7.2. Future research suggestions

This study uncovered a number of areas that would benefit from future research. For further research it could be worth to investigate India from the viewpoint of some special branch or products for example agricultural machinery and moreover study the possibilities of these companies to enter the country and choose the right entry mode. Regarding agriculture in India, because of the humidity in the country is so high; approximately 45 % of the crops are destroyed due to lack of technology for moisture control for grain and hay. In Finland there are many companies in this sector to be able to answer to this demand. The sector would benefit from a deeper investment. The small and medium sized companies from different sectors could also jointly take care of purchasing components and parts from India. This could be the future subject to further investigate the Indian market.



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UNIVERSITY of VAASA

**QUESTIONNAIRE****APPENDIX 1**

10.4.2011

**INTERNATIONAL JOINT VENTURES IN INDIA**

1. Name of the company \_\_\_\_\_
2. Annual turnover re. Internationalization \_\_\_\_\_
3. Name of the joint venture \_\_\_\_\_
4. Year of establishment of joint venture \_\_\_\_\_
5. Form of investment a) \_\_\_\_\_ Greenfield b) \_\_\_\_\_ partial acquisition
6. Ownership structure \_\_\_\_\_
7. What was your company's experience in international joint ventures at the time of establishment of IJV  
 \_\_\_\_\_ None \_\_\_\_\_ 1-5 years \_\_\_\_\_ more than 5 years
8. Your company's earlier operation in the target country prior to the JV
  - a) \_\_\_\_\_ no prior activity
  - b) \_\_\_\_\_ licensing agreement
  - c) \_\_\_\_\_ exporting/importing
  - d) \_\_\_\_\_ a manufacturing JV
  - e) \_\_\_\_\_ a wholly-owned manufacturing unit
  - f) \_\_\_\_\_ sales office
  - g) \_\_\_\_\_ middleman
  - h) Other operation, which: \_\_\_\_\_
9. How similar was your company's business/product similarity with the unit's business/products?
  - a) \_\_\_\_\_ totally similar
  - b) partially similar \_\_\_\_\_
  - c) totally different \_\_\_\_\_
10. Re the following statements concerning your company, which of the following statements you agree or disagree (circle or bold a number)
  - a) We have a great deal of control (operational control) over daily activities of JV 1 2 3 4 5
  - b) We have a great deal of control (strategic control) over major decisions of JV. 1 2 3 4 5
  - c) We have significantly reduced our initial dependence on the other partner since the establishment of the JV 1 2 3 4 5
  - d) There exists a complete trust between the partners 1 2 3 4 5
  - e) Conflicts between partners are quite common 1 2 3 4 5
  - f) Both partners are strongly committed to the JV operation. 1 2 3 4 5
  - g) Partners have similar management styles/organizational cultures 1 2 3 4 5

11. Re General environment in India, how important were the following factors for the investment decision

- |                               |           |
|-------------------------------|-----------|
| a) Geographical location      | 1 2 3 4 5 |
| b) Climate                    | 1 2 3 4 5 |
| c) Raw material resources     | 1 2 3 4 5 |
| d) Energy supply              | 1 2 3 4 5 |
| e) Transportation             | 1 2 3 4 5 |
| f) Economy                    | 1 2 3 4 5 |
| g) Population                 | 1 2 3 4 5 |
| h) Income level               | 1 2 3 4 5 |
| i) Consumer behaviour         | 1 2 3 4 5 |
| j) Education level            | 1 2 3 4 5 |
| k) Wage level                 | 1 2 3 4 5 |
| l) Unemployment rate          | 1 2 3 4 5 |
| m) Business culture           | 1 2 3 4 5 |
| n) Infrastructure             | 1 2 3 4 5 |
| o) Labour movement            | 1 2 3 4 5 |
| p) Interest rate              | 1 2 3 4 5 |
| q) Inflation rate             | 1 2 3 4 5 |
| r) Other factor, which? _____ | 1 2 3 4 5 |

12. How does your company find the host country environment?

- |                                     |                |           |               |
|-------------------------------------|----------------|-----------|---------------|
| a) Culture compared to home country | Very different | 1 2 3 4 5 | Very similar  |
| b) Risk                             | Very high risk | 1 2 3 4 5 | Very low risk |
| c) Competition                      | Very high      | 1 2 3 4 5 | Very low      |
| d) Economical                       | Very different | 1 2 3 4 5 | Very similar  |
| e) Political                        | Very different | 1 2 3 4 5 | Very similar  |
| f) Legislative                      | Very different | 1 2 3 4 5 | Very similar  |

13. Which of the partners of IJV made the first suggestion for the establishment of IJV?

- a) Your company  
 b) The local company  
 c) Third party, which .....

14. How important does your company find the following purposes for IJV activities.

- |  | Not at all important | Very important |
|--|----------------------|----------------|
| a) Earning profit                                | 1 2 3 4 5            |                |
| b) Increase market share                         | 1 2 3 4 5            |                |
| c) Develop base for low-cost sourcing            | 1 2 3 4 5            |                |
| d) Establish a base to access to other countries | 1 2 3 4 5            |                |
| e) Access to local marketing expertise           | 1 2 3 4 5            |                |
| f) Access to local management expertise          | 1 2 3 4 5            |                |
| g) Access to local distribution channel          | 1 2 3 4 5            |                |
| h) Develop a new product or technology           | 1 2 3 4 5            |                |
| i) Achieve economies of scale                    | 1 2 3 4 5            |                |
| j) Achieve rapid market entry                    | 1 2 3 4 5            |                |
| k) Overcome local government regulation barriers | 1 2 3 4 5            |                |

- |   |   |   |   |   |   |
|---|---|---|---|---|---|
| l) Reduce capital investment                    | 1 | 2 | 3 | 4 | 5 |
| m) Learn and acquire from partners contribution | 1 | 2 | 3 | 4 | 5 |

15. Please indicate the extent to which you agree or disagree with the following statements concerning your company.

	Agree					Disagree				
a) We have a great deal of control over daily activities of the IJV	1	2	3	4	5					
b) We have a great deal of control over major decisions of the IJV	1	2	3	4	5					
c) We have significantly reduced our initial dependence on the other partner since the formation of the IJV	1	2	3	4	5					
d) We still rely on the other partner for their contributions to the IJV	1	2	3	4	5					
e) We can easily find another partner if the IJV would be terminated	1	2	3	4	5					
f) Our contribution to the IJV is very valuable to our IJV partner's other business	1	2	3	4	5					
g) Our investment (physical or human) in the IJV would be of little value outside the IJV if the IJV were to fail	1	2	3	4	5					
h) Continued success of the IJV depends on periodical renewal of our contribution to it	1	2	3	4	5					
i) It is easy for us to transfer the investment in the IJV to other places/purposes	1	2	3	4	5					
j) There exists a complete trust between the partners	1	2	3	4	5					
k) The assets of your company and your IJV partner strongly compliment each other	1	2	3	4	5					
l) The resource need of your company is of similar size compared to the partner	1	2	3	4	5					
m) The objectives set for the JV are similar between you and your partner	1	2	3	4	5					
n) Through the IJV, the partners have experienced synergy benefit	1	2	3	4	5					
o) The objectives set for the JV are in conflict between you and your partner	1	2	3	4	5					
p) Both partners are strongly committed to the JV operation	1	2	3	4	5					
q) Partners have similar management styles /organizational cultures	1	2	3	4	5					
r) Partners get along very well in the JV	1	2	3	4	5					
s) Conflicts between partners are quite common	1	2	3	4	5					
t) There is a high level of cooperation between the JV partners	1	2	3	4	5					
u) The cooperation has been expanded between partners to cover more products and/or markets	1	2	3	4	5					
v) The value of your company are similar to the values of your JV partner	1	2	3	4	5					

16. What kind of relationship with the main partner did you have prior to JV

- |                     |                            |   |
|---------------------|----------------------------|---|
| a) ___ a customer   | b) ___ a licensing partner | c) ___ a representative of<br>your company's products |
| d) ___ a competitor | e) ___ other               | f) ___ no prior relationship                          |

17. and 18. What criteria did your company use to evaluate the performance of JV and how satisfied is your company with the JV performance in 2010.

	<b>17. Importance</b>					<b>18. Satisfaction</b>				
	Not important			Very important		Very unsatisfied			Very satisfied	
a) Level of sales	1	2	3	4	5	1	2	3	4	5
b) Market share	1	2	3	4	5	1	2	3	4	5
c) Financial result	1	2	3	4	5	1	2	3	4	5
d) Control of expenses/total costs	1	2	3	4	5	1	2	3	4	5
e) R & D activity	1	2	3	4	5	1	2	3	4	5
f) Quality control/quality objectives	1	2	3	4	5	1	2	3	4	5
g) Labour productivity	1	2	3	4	5	1	2	3	4	5
h) Efficiency of marketing	1	2	3	4	5	1	2	3	4	5
i) Efficiency of distribution	1	2	3	4	5	1	2	3	4	5
j) JV image	1	2	3	4	5	1	2	3	4	5
k) Level of customer service	1	2	3	4	5	1	2	3	4	5
l) Total performance	1	2	3	4	5	1	2	3	4	5
m) Performance compared to competitors	1	2	3	4	5	1	2	3	4	5
n) Other, please specify: _____	1	2	3	4	5	1	2	3	4	5

19-20. When forming the IJV, how strong was the competitive position of a) your company,  
b) The IJV partner along the following dimensions, relative to your principal rivals?

	<b>19. Your company</b>					<b>20. IJV-partner</b>				
	Weak			Strong		Weak			Strong	
a) Ability to provide low production and /or labour costs to the IJV	1	2	3	4	5	1	2	3	4	5
b) Compliance with government requirements	1	2	3	4	5	1	2	3	4	5
c) Access to raw materials or components	1	2	3	4	5	1	2	3	4	5
d) Financing/capital, qualifying for subsidies or credits	1	2	3	4	5	1	2	3	4	5
e) Ability to supply technically skilled personnel to the venture	1	2	3	4	5	1	2	3	4	5
f) Ability to supply general managers to the venture	1	2	3	4	5	1	2	3	4	5
g) Possession of needed licences, patents, know-how	1	2	3	4	5	1	2	3	4	5
h) Control for favourable location for production	1	2	3	4	5	1	2	3	4	5
i) Possession of needed manufacturing or R & D	1	2	3	4	5	1	2	3	4	5
j) Access to marketing/distribution system,	1	2	3	4	5	1	2	3	4	5
k) Possession of a valuable trademark/brand	1	2	3	4	5	1	2	3	4	5
l) Valuable reputation/image	1	2	3	4	5	1	2	3	4	5
m) Perceive local or national identity	1	2	3	4	5	1	2	3	4	5
n) Knowledge of target market's economy & customs	1	2	3	4	5	1	2	3	4	5
o) Ability to enhance the venture's export opportunities	1	2	3	4	5	1	2	3	4	5
p) Ability to make sales to local government/ public companies	1	2	3	4	5	1	2	3	4	5

21. Please indicate the extent to which you agree or disagree with the following statements regarding trust in your IJV

	Disagree			Agree	
a) Mutual trust between partners is necessary for the success of IJV	1	2	3	4	5
b) Trust has been an essential position during the existence of IJV	1	2	3	4	5
c) The amount of trust affects positively the commitment of partners	1	2	3	4	5
d) Trust is based on the relationships between key people of companies	1	2	3	4	5



e) Trust between companies is strong in all of the organizational level	1	2	3	4	5
f) Trust between partners has increased as the cooperation has proceeded	1	2	3	4	5
g) Increased trust has diminished the need for control and monitoring	1	2	3	4	5
h) Trust between partners is very important in the Indian business life	1	2	3	4	5
i) The use of expatriates and different kinds of trainings affect positively	1	2	3	4	5
j) Our partner has a differing view of trust than we	1	2	3	4	5
k) Trust between partners has encountered serious breaches during the Corporation	1	2	3	4	5

## ***APPENDIX 2: INTERVIEW QUESTIONS***

*1. Describe what are the main motives for the IJV in the future?*

*2. How do you see the bureaucracy and corruption in India?*

*3. How do you find the management of IJV in India?*

*4. Have you had difficulties with the controlling of IJV?*

*5 . Could you describe the work moral in India and how it differs from that of Finns / Swedes?*

*6. Did you get any government grant of financial funding when establishing IJV in India?*

Yes \_\_\_\_\_ What kind of? \_\_\_\_\_ No \_\_\_\_\_

*7. Did you get advice services from any organization re starting business in India?*

Yes \_\_\_\_\_ If yes, which Organization \_\_\_\_\_ No \_\_\_\_\_

Your name \_\_\_\_\_ Position in the company \_\_\_\_\_

Did you participate in the establishment of IJV \_\_\_\_\_

Your relationship with the IJV at the moment \_\_\_\_\_

**THANK YOU FOR YOUR ANSWERS AND VALUABLE TIME FOR THIS QUESTIONNAIRE!**